ECONOMICS

OF

PAKISTAN

BY

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PREFACE TO THE SECOND EDITION

This is the Second and considerably enlarged edition of the booklet that appeared under the same title over two years ago.

In this edition an attempt has been made to give a broad picture of the economic resources and problems of Pakistan with particular reference to the policies pursued by the Government of the country with a view to solving these problems. Wherever considered necessary, the subjects have been presented in their historical perspective linking post partition developments with those that took place in these areas before the birth of Pakistan as a seperate state.

The writer wishes to point out that some of the histbrical material used in this book was contributed by him to another work produced in collaboration before the partition. He has taken care, however, to use only his personal contributions to that work. Some of the material of this book has already been published in the form of articles or monographs.

Since the production of this work has been spread over a period of two years, data had to be revised again and again as new and up-to-date facts became available. Due to gaps in the available and accessible data the presentation could not be made as uniform and complete as one would have liked. Every effort, however, has been made, with all the limitations of the effort of a private individual, to approach original sources, failing which reliable second hand sources have been tapped. The writer is grateful to all these sources. In particular he wishes to thank the Finance Secretary Government of Pakistan, the Finance Secretaries of the

Provincial Government of E. Bengal, N. W. F. P. and the Punjab for their kindness in supplying him copies of their Budgets. He is further grateful to the Governor of the State Bank, the Economic Advisor, Director Department of Commercial Intelligence and Statistics and the Co-operation and Marketing Advisor, Government of Pakistan, for making available to him the necessary data about their respective spheres of jurisdiction.

At the end the writer wishes to thank Mr. Mohammad Amin B.A. LL. B. of the Publisher's United whose hard and sustained labour has enabled this work to be published much earlier than seemed originally possible.

S. M. Akhtar.

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April 2. 1951

PUBLISHERS NOTE

The publishers regret that, in an endeavour to meet the urgent need of the readers, they had to rush through the Publication, and so a number of printiog mistakes have unfortunately crept in. In this connection, for times the readers indulgence is sought. Care will be taken that no such mistakes occur in the next edition In the meantime the mistakes which are likely to affect the meaning of the text seriously are corrected below.

Page	Line	Please read	in stead of
322	15 (*from below*)	1918, was put under	1918 under.
356	5	25 06 crores	2506 crores
574	1	Media of *exchange*	Media of change
576	6—7	adoption of gold standard and showing down etc	adoption of gold standard showing down etc
582	1	lower *incomes*	lower *increase*
582	20	disgruntled *nations*	disgruntled *natures*
582	*last line*	groups of commodities	*prices*
593	8	20 Indian Economists	*No* Indian Economist
597	17 (*from below*)	*quantity* of	*Scarcity of*
606	10	liberalisation	liberation
622	9	criticism *of the Sales Tax* which	Criticism which

634	11 (*from below*)	TAXES ON INCOMES	TAXES and INCOMES
635	10	imposed on *luxuries*	imposed on *business*
635	12	if only *luxuries*	if only *business*
635	15	for *luxuries*	for business
637	12	for *luxuries*	for business
640	5 (*from below*)	in *exact* proportion	in *great* proportion
641	21	may be argued	may be agreed
643	3—4 *from below*	annuities	assessment
644	1—2	*annuites* will taper of with *years*	*assessment* will taper off with *your*
644	3 (*from below*)	Chief bottlenecks	cheap bottleneck
659	15	Government *must*	Govt. *cannot*
671	18	Rs. 1/8 per head a year	Rs: 1/8 a year

CONTENTS

CHAPTER I

HUMAN AND NATURAL RESOURCES

1 The Pakistan Regions. Pakistan became an independent State[1] on the 15th of August, 1947. It came into existence through the division of the old British India. The Indian States were expected to join either one or the other of the two Dominions Except Kashmir the problem of the other states has been practically settled.

The Dominion of Pakistan at the moment consists of the following areas.—

A—Western Pakistan comprises of —

(a) The Province of West Punjab created by the division of the old Punjab and comprising of about 60% of the area of the old province.

(b) The Provinces of N W.F.P. Sind and what used to be the Chief Commissionership of Baluchistan.

(c) The States of Bahawalpur, Khairpur, Kalat, Dir, Chitral, Amb and Sawat, which have acceded to Pakistan.

B—Eastern Pakistan consists of .—

The Province of East Bengal which contains some districts of the old Province of Bengal, the Sylhet district of old Assam and the Chittagong Hill Tracts.

These two portions of Pakistan are separated by over a thousand miles of Indian territory.

The capital of the Dominion is at Karachi in West Pakistan.

In the following pages we propose to study the basic economic facts and problems of this new Dominion of ours.

(1) Indian Independence Act, 1947. 10 and 11 Geo VI Chapt 30.

2—AREA AND POPULATION

The following table gives the area and population of Pakistan and its various parts :—

	Area 1000 sq. miles	Population (1941) Millions Total	Millions Muslim	Per cent Muslim	Destiny per sq. miles
1. Western Pakistan ...					
W. Punjab ...	62·1	15 8	11·8	74·7	254
N.W.F.P. ...	14·3	3·0	2·8	93·3	209
Sind ...	48·1	4·5	3·2	71·1	94
Baluchistan ...	5·45	0.5	0·4	80·0	9
Total ...	179·0	23·8	18·2	76·5	133
2. Eastern Pakistan ...					
E. Bengal ...	49·5	39·1	27·9	70·1	789
Sylhet ...	4·6	2·7	1·7	63·0	590
Total ...	54·1	41·8	29·6	70 8	772
Total Pakistan Excluding States	233·1	65 6	47·8	72·9	282
Total Pakistan Including States	361·0	69·9	52·2	74·9	194
Total India, Excluding States ...	865·4	295 8	79·4	26 8	348
Total India, Including States ...	1,581·4	389·0	94·4	24·3	246
%Share of Pakistan Excluding States ...	25·9	22·2	60·2	...	...
%Share of Pakistan Including States ...	22·9	18·0	55·2	...	...

Several conclusions are indicated by the above table :—

(*a*) While Pakistan has got 23% of the area of the Indo Pak sub-continent her population is only 18% of the population of pre-division India. If Kashmir ultimately acceeds to Pakistan the latter's percentage share of area will rise to 28% and of population to over 20%. These figures, however, do not take into account the fact that population of the sub-continent has grown since 1941 and that due to Inter-Dominion migrations Pakistan has gained more than she has lost in numbers.

(*b*) That Pakistan has acquired more area than population is also indicated by the lower Density of the Dominion. While over all Density in Pakistan is 194 persons per square mile, it is 246 for the sub-continent and 261 for the Indian Dominion.

The lower Density in Pakistan, however, does not *necessarily* mean that pressure on land is lower (though actually it is). This is determined by cultivated area per head and not total area. Nor does it mean that economically Pakistan is better because this is determined by the degree of exploitation of the resources of the country through industrialization etc. Mo-of this later.

(1) Indian means pre-partition.

(c) As regards Pakistan areas themselves, the above table reveals that while Eastern Pakistan has less than one third of the total area it has to maintain about two thirds of the total population of the country. This is also indicated by the fact that while population density in Western Pakistan is 133, it is as high as 772 in East Pakistan. Density in East Bengal is as high as 789. When it is realised that all this population is supported by agriculture alone the heavy pressure on land can well be imagined.

(d) Provinces of Sind and Baluchistan are very sparsely populated, but much of their territory is unproductive though there is still considerable scope for extension of cultivation in Sind by construction of irrigation works.

(e) About 45% of the total Muslim population of the sub-continent is still living in the Indian Dominion. This fact has great political and humanitarian significance. The non-Muslims in Pakistan are in much smaller proportion and in numbers.

Although the major portion of the population of Pakistan is found in its Eastern portion, yet West Pakistan is of greater importance to the Dominion. This is not only because of its

ious to the Middle Eastern
more advanced socially,
cally also it is of great
Dominion was located in

On the other hand Eastern Pakistan is surrounded almost from all sides by Indian territory, and is divided from the western portion of the Dominion by more than a thousand miles of land belonging to the sister Dominion of India. The sea route from Karachi to Chittagong involves a long voyage of thousands of miles *via* Cape Comorin, along the Indian coastline. This fact has far-reaching economic and political implications.

million in urban areas of undivided India. This meant about 13% urban and 87% rural population

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rially. As we shall see,

thanks to the policy of the undivided Indian Government an other factors, Pakistan has practically no industries worth the name. This fact stresses the need for rapid industrialisation and hence urbanization in Pakistan.

Another aspect of distribution of population is according to communities. According to the census figures of 1941, the areas demarcated as Pakistan should have contained 52·2 million (74·9%) Muslims and 17·7 million (25·1%) of non-Muslims. Since the partition it has been estimated that about 4 million of non-Muslims have moved out of Western Pakistan and about 6 million of Muslims have migrated into it. Thus on the basis of 1941 census Pakistan should contain 58·2 million or 80% Muslims and 13·7 million (20%) non-Muslims. The number of Hindus and Sikhs in Western Pakistan is now insignificant. The percentage of non-Muslims in Eastern Pakistan is about 28.

No doubt the density of population in Pakistan as a whole and specially in Western Pakistan is lower than in the Indian Dominion, yet the pressure on the economic rosources of Pakistan is probably higher than in the case of India. This is due firstly because Pakistan is almost entirely an agricultural country with no industries worth the name, secondly, because of the net addition of two million souls due to post partition migrations and thirdly because of the increase that must have occured since the census of 1941. This last factor, however, is common to both the Dominions.

The percentage increase in the population of the Indian sub-continent during the decade 1931-41 was 15 and during the previous decade 10 (ten). Even if we take net incrrease in Pakistan at 10% since 1941 the total probable population of Pakistan cannot be much less than 80 million souls, and this is a very heavy burden on the primitive economy of our country. Unless steps are taken to bring about rapid economic development we may very soon be faced with the problem of over-population in an acute form.

3. **Nature of the Soil.** It is not the landed area in relation to population which determine the scope for economic development in a country, but it is what is above and below that land surface *i.e.* mineral resources, forests, water facilities and the nature of the soil. We shall take up the last one first.

Pakistan soils may be classified as follows :—

(*i*) Highly calcareous soils found in the mountaineous and hilly regions. These are derived *in situ* from the barren rocks.

(*ii*) Alluvial soils found in river valleys. These are transported by great rivers from the Himalayas and deposited in the low levels.

(*iii*) Kalar soils which are impregnated with salt. These are found in West Punjab and Sind and require reclamation.

(*iv*) Sandy soils and loess found in the Potwar Plateau Rawalpindi district and hilly regions of Frontier Province and in Baluchistan.

(*v*) Desert soils which occupy a large tract in Eastern Sind extending over the whole length of the province along the edge of the Indus alluvium, Rajputana and South Punjab area. These soils are useless from the point of view of cultivation.

(*vi*) In the Deltic areas of Eastern Pakistan are to be found

two great river systems passing over most of the Pakistan territories. This soil is rich in salts and is responsible for the great fertility of the plains. Even in very narrow valleys between high mountain ranges these soils are soaked with water and produce good crops. Such is the position in the mountain ranges of N.W.F.P. and Chittagong Hill Tracts.

The alluvial soils are not all of exactly the same kinds. In the Punjab plains we find sandy clays and loams, less calcareous and paler in colour. On the other hand in the plains of Sind are to be found clayey loams less sandy and more calcareous. Parts of the lower plains of Sind are covered by Khaddar or dew alluvium and other parts by Bhangar or old alluvium. The old alluvium is generally found at higher levels in drier parts.

Besides these in the valleys we find intricate sand and clay felts which are more than a dozen feet deep. These are found in places which have been river beds in the past and have been left free on account of the rivers having shifted their courses. In the upper reaches of the rivers the sand beds are much deeper

and more numerous, because the sand is dropped earlier by water at the time of inundations. Finer particles are dropped down later in the course of the river.

Some of the agricultural soils of Sind consist of silt and clay deposited by flood waters on their being pounded against the Kirthar mountains. These are some of the best agricultural soils of the province *e.g.*, in the Larkana District.

In the arid tracts of the valleys we find debris of desert soil strewn all over. These are derived from soft sedimentary rocks like sand stone, lime stone and clay and is scattered by the process of wind erosion.

4. The Problem of Soil Erosion. Before we leave the subject of soils it will not be out of place to give attention to a process of soil deterioration, which is becoming a problem in some parts of Pakistan.

Soil erosion implies washing away of the surface soil either through river floods or excessive rain in the hills. The rivers ht bring cultivated land under their sweep or may throw a k layer of sand over it, thus making it unfit for cultivation. face erosion may also be caused by heavy rains in areas that ave not been properly protected through the construction of embankments. Erosion may also take place through the action of wind.

Soil erosion in Pakistan is thus found in the deforested hill sides, in the arid plateau lands and the flooded parts of river valleys. In the barren parts of the Western Pakistan, in spits of scanty rainfall, the force of the torrents is great. Same is the case with the hilly tracts of Eastern Pakistan, where rainfall is excessive, wind erosion is common on the wind side of the hills in Baluchistan.

Full information regarding the area rendered unfit for cultivation is not available. A recent detailed investigation in the seven upland districts of West Punjab (Rawalpindi, Campbellpur, Gujrat, Sialkote, Mianwali, Shahpur and Jhelum) with a total area of 14·7 million acres (half under cultivation), as much as 1·75 million acres have been revealed as badly gullied by s erosion. Most of this area is classed as 'forest', cultivable was or unculturable,[1] in the records.

1 R. M. Gorrie (Conservator Forests R. Pindi) Paper on Water Cont etc., read before U.N. Scientific conference on Conservation and Utilization

Soil erosion may occur due to several causes. (*i*) Due to cutting of trees or deforestation. In Attock and Jhelum districts trees have been removed from the banks of the Swan stream and the land has become barren. (*ii*) Due to removal of Vegetation which exposes land to wind and rain. This may be caused by increase of population human or animal. (*iii*) Uncontrolled grazing especially of goats. Grazing does not let the grass flourish and leads to denudation of the soil. (*iv*) Cultivation on hill slopes also has the same effect.

Following remedies are usually suggested to meet this evil.

(*a*) Replanting trees (*b*) Building of embankments (*c*) Reclamation of land and (*d*) Control of grazing.

The evil in the prepartion Punjab was so serious that the Government had to create an Anti Erosion Department for the purpose of arresting this process. The Forest Department also helped in the reclamation of land. As far back as 1928 the Royal Commission on Agriculture[1] had suggested that protective measures against soil erosion should be left to private Co-operative effort. Sir John Russel[2] in 1937 was of the view that such measures should be a State responsibility. The latter view seems to be more in accordance with the conditions in this country.

Protection through planting of shrubs and wild trees by the Forest Department was suggested as far back as 1893 by Dr. Voelker in his famous Report. Trees, however, cannot be successfully planted unless grazing of cattle, sheep and goats is forbidden. A law exists in the West Punjab under which areas can be closed against grazing either partially or wholly or seasonally.

Digging of contour trenches is useful. This consists in making of channels on the slopes at small distances. Thus the water flow is obstructed; the water gets absorbed in the earth. Seeds of grass and trees can be sown in these channels.

Embankments can be built by the cultivators themselves. Thus water can be prevented from flowing down. This conserved water can be used for irrigation.

1. Royal Commission on Agriculture Report p 80

2 J. Russel: Report on the work of the Imperial Council of Agricultural Research (1937) p 57.

5. Mineral Resources: Pakistan is in a weak position as far as the known mineral resources are concerned. Almost all the important mineral area lie in the Indian Union, as the following table[1] shows :—

Minerals	Indian Union	Pakistan	Percentage of the total in Pakistan.
Coal (lakh tons) ...	248·0	3	Negligible.
Iron (million tons) ...	2·3	...	nil
Copper (lakh tons) ...	3·3	...	nil
Manganese (lakh tons) ...	3·7	...	nil
Bauxite (tons) ...	12,135	...	nil
Petroleum (million gall.)...	82·3	15·2	16
Mica (000 cwt.) ...	139	...	nil
Chromite (000 tons) ...	21	19	47·5
Gypsum (000 tons) ...	26	58	69·0
Fuller's earth (000 tons) ...	8	3	27·2

So far as the most important minerals like coal, iron, copper, manganese, bauxite and mica are concerned, Pakistan produces nil except for a negligible quantity of coal.

As regards Petroleum both the Dominions have to depend upon imports from foreign countries. Pakistan's relative position even here is weaker than India's. In respect of Chromite, Fuller's Earth and Gypsum, Pakistan's position is stronger than India's though the total quantities produced are not large. These minerals are industrially less important.

The State of Chitral in Pakistan enjoys a monopoly in the production of Antimony; but the total production is quite small.

Salt is an important mineral and is also produced from sea and lake waters. The total production of salt in undivided India was about 1·9 million tons. Roughly about one-third can be attributed to Pakistan though definite separate figures are not available. Pakistan is more than self-sufficient in salt.

Apart from the above a large number of other minerals are produced in the Indian Union such as berytes, china clay, magnesite, ilmenite, kynite, stealite, monezite, ochre, diamonds, gold and silver. None of these are produced in Pakistan.

So far, however, we have spoken of the already discovered and exploited minerals. Geological survey may reveal more

1. Figures from Vakil: Economic Consequences of Partition (1948 Ed.)

mineral wealth in Pakistan than discovered hitherto. Attempts are already being made in this connection. Large-scale prospecting for oil is being undertaken by the Burma Oil Company. At the moment two test wells are being drilled, one at Chakwal in West Punjab and the other at Lakhra about 170 miles from Karachi. C
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Surghar ranges of Kohat. It has also been located in Eastern Pakistan. Mica occures in the Hazara district. Sulphur is obtainable from the dried up sulphur springs of Chitral and also occurs in Baluchistan. Alum is found in Khyber and Kalabagh hills. But unless we know exactly what quantities and of what qualities of these minerals are available, it is difficult to have any definite idea of our mineral wealth. Moreover, the cost of extraction is also a relevant factor. Hence it is necessary to carry out an exhaustive Geological survey which should be undertaken as soon as possible.

The lack of minerals, however, need not depress us unduly. No doubt we have very little coal as source of power. But coal is not the only source of power. Apart from the great scope for the development of hydro electricity as we shall see later, we can supplement our oil resources through imports from the great oil producing areas of Middle East for Western Pakistan. Eastern Pakistan can import oil from Burma.

The lack of iron will be a serious bottleneck because without it we shall find it very difficult to have our own iron and steel industry which is regarded as the basis of modern industrial development. But we have instances before us of countries which have developed their industries without possessing iron mines of their own Japan is the classical example of a country which industrialised herself on imported basic materials like iron, copper etc. and even cotton. We shall have to proceed on similar lines.

6. **Hydro-electric Schemes**: Pakistan, as we have seen, lacks coal and has inadequate oil. The most important source of power available to Pakistan is hydro-electricity. Our hydro-electric resoures are plentiful but so far have remained undeveloped. As for as the existing hydro-electric supply is concerned Pakistan possesses only 9,600 K. W. of the All-India total of 467,729 K. W which means only about 2 per cent. of the wnole. As regards electricity generated by steam and gas Pakistan's share is 31, 645 K. W. out of 660,263 K. W. or 4·7%.

The share in the electrical energy generated by oil (Diesal) is however higher *i.e.* 23·8% or 27,782 K. W. out of the all India total of 116,767 K. W. In all, Pakistan's share is 5·4% of the total installed capacity of generating plants existing in this sub-continent.[1] Pakistan has thus considerable bee way to make.

The Pakistan Government soon realised the importance of this aspect of our economy. In a conference of the Ministy of Education and Industries held on 28th and 29th April 1948 it was decided that the following projects in West Pakistan should be completed as early as possible.

Name of Project	Estimated Ourput
(1) The Rasul Project	... 14,000 K. W.
(2) The Mian wali Project (1st stage) ...	... 15,000 K. W.
(3) The Dargai Project	... 20,000 K. W.
(4) The Warsak Project (1st stage) ...	... 65,000 K. W.
Total	... 114,000 K. W.

The schemes on which construction work has actually started are estimated to produce 89,300 K. W. as detailed below :—

Province		Scheme	K. W.	Expected date of completion	Total cost involved
W. Punjab	...	Rasul	14,000	1952	776.54 lakhs
N. W. F. P.	...	Malakand	10,000	1949	40.00 ,,
N. W. F. P.	...	Dargai	20,000	1953	155.50 ,,
W. Punjab	...	Steam and Diesal	20,700	...	...
E. Bengal	...	Steam and Diesal	10,600	...	...
Karachi	...	Steam and Diesal	14,000	...	...
Total	...		89,300		

Two other hydro-electric projects are under considation by the Government. They have already been approved in principle by the Development Board.

(*i*) Warsak in N.W.F.P. which will produce 65,000 K. W. at a cost of Rs. 9.5 crores and is expected to be completed by April 1955 and (ii) Karnafulli in East Bengal, which will produce 40,000 K. W. at a cost of Rs. 5 crores and is likely to be completed by April 1954.

At its meeting held on June 8th 1949 the Pakistan Development Board recommended that the Mianwali Project

Stage I (15,000 K. W.) should be given a high priority. At the completion of all these schemes Pakistan will have a total electrical energy of nearly 210,000 K. W. This will take about five years. It should be noted that the target put forth by the Pakistan Industries Conference held in Dec. 1947 was 500,000 K. W. to be produced in five to seven years. The progress is much slower than expected, due to difficulties of obtaining necessary machinery materials and skill.

7. **Some Important Projects.** Below are given details of some of the important hydro-electric projects, in the various parts of the country, either proposed or already under construction :

(i) *The Rasul Project (West Punjab).* The principal source of hydro-electricity in the pre-partition Punjab—the Hydro-electric Power House at Mandi—went to the East Punjab. The agreement under which West Punjab receives electrical energy from this source expired on the 31st March 1949 and had to be extended on less favourable terms. A new Hydel station is being constructed at Rasul in the Gujrat district, which will fill the gap thus caused in about two years time. Originally this project was planned to supply 22,000 kwtts of electricity from two tunnel falls. This was to be used for working tube-wells for irrigation purposes. It has been decided to produce 14,000 kwtts to be used for domestic and industrial purposes.

Apatt from the Hydro-electric station at Rasul, the scheme involves grid sub-stations at Jhelum, Gujrat, Gujranwala, Shalamar, Hafizabad, Chinawan, Sukheke, Sangla, Chakjhumra, Lyallpur, Chiniot, Dinga (Chakori), Malakwal, Bhabra, Bhulwa and Sargodha.

The necessary plant and machinery are being supplied by manufacturers in the United Kingdom and the bulk of it has already arrived.

(ii) *Warsak Scheme (N. W. F. P.)* :—This is a multiple project involving the building of a dam on the Kabul River at Warsak in the N. W. F. P. The dam will be 200 feet high and will be located in a narrow gorge with a power-house at its base. The scheme to start with will provide 65,000 kwtts of electrical energy and will cost Rs. 9½ crores. Transmission lines will be constructed through Peshawar to Rawalpindi where power will be delivered in bulk to the West Punjab.

The scheme will also provide irrigation to 65,000 acres of land in the tribal area which has a rich soil but lacks water. It will work tube-wells in the Kohat district and will also supply

power for working the Mullazai Marble quarries. In addition it will supply power for the industrialisation of the provinces of N. W. F. and the West Punjab.

(*iii*) *Karnafulli Project (East Bengal)*. The Government of East Bengal aims at producing 111,000 kwtts of electrical energy for industrialisation and other purposes. The total capital expenditure will be about ten crores of rupees. The biggest project is the Karnafulli Hydraulic scheme. For this a dam will be constructed across the River Karnafulli. The survey has already been carried out and the site selected. It is expected that this power station will supply electricity to the districts of Chittagong, Noakhali and Tippera. This station alone will produce 40,000 kwtts of electricity and will cost Rs. 5 crores.

(*iv*) *Other Projects*. Among the other projects may be mentioned the Mianwali scheme in the West Punjab. It will supply electricity to the provinces of the West Punjab and N. W. F. for their industrialisation, producing 15,000 K. W. in it first stage. Another scheme envisaged by the N. W. F. Government is the Dargai Hydro-electric project which will produce 20,000 kwtts and will cost Rs. 1·5 crores. Ghazi Project is another scheme for N. W. F. P. which will receive attention after the Warsak scheme has materialised.

8. **Forest Resources.** An adequate proportion of area under forests is of great importance for the economy of a country. Apart from supplying fuel, animal and bird life, industrial raw materials and other products of utility, forests have a protective role to play. They prevent soil erosion, regulate the flow of rivers and influence the quantity and distribution of rain fall. They have favourable repurcussions on the climate and quality of the soil.

For Pakistan forests are of special importance, since these are the main source of our fuel. If manure is to be preserved for fertility of land, the peasant must be supplied with fuel wood. In other countries, coal and oil serve purposes which wood and charcoal serve here. Moreover, the problem of soil erosion is assuming formidable magnitude in certain parts of the country and the most effective remedy for it is greater afforestation.

Undivided India had 87 million acres under forests of which five million acres have fallen to the share of Pakistan. This is about 4 % of the total landed area of the

country. On basis of per capita consumption of timber, firewood and other needs, it has been estimated that at country should have at least 25 % of its area under forests. Pakistans' forests are thus extremely inadequate. The following table shows the extent of forests possessed by some countries as compared with Pakistan.

Country.		Forest Area as percentage of total area.	Country.		Forest Area as percentage of total area.
Finland	...	74 %	Italy	...	20 %
Sweden	...	55 %	Germany	...	19 %
Russia (European)		44 %	France	...	19 %
Austria	...	38 %	Belgium	...	18 %
Czechoslovakia	...	34 %	Indian Union	...	15 %
Poland	...	23 %	Great Britain	...	6 %
Switzerland	...	23 %	Pakistan	...	4 %
Norway	...	21 %			

Great Britain is the only important country which possesses inadequate forest. But in the first place, there is no lack of fuel there; secondly, she is an island needing no climatic contribution of forests; and thirdly, her needs can be supplied from her possessions elsewhere. Even the Indian Union is much better off than Pakistan in this respect.

As regards the extent of forests in the various provincies of Pakistan the table given below shows how the percentage area under forests varies among them :—

Province		Total are sq. miles	Area under Forest sq. miles	Forest Area as percentage of Total area.
East Bengal	...	51,550	4,447	9.7%
N.W.F.P.	...	14,263	592	4 0%
W. Punjab	...	58,042	1,872	3 2%
Baluchistan	...	54,406	1,805	3·2%
Sind	...	47,164	1.161	2·3%
Total	...	245,425	9,861	4·1%

It will be seen that while East Bengal is best off and Sind worst off from this point of view, forests are inadequate in every province.

Though inadequate in area, Pakistan forests possess great variety both scenic and botanical. They range from the tropical East Bengal flora to the sub-tropical and temperate vegetation of the west, and alpine forests of the higher Hazara hills in the

north. The inadequacy of forests in East Pakistan is greater because of its much higher pressure on land, hence more extensive cultivation. Even then the submontane tracts and Chittagong hills possess magnificent evergreen and semi-evergreen tropical forests. The less moist regions have deciduous sal trees and bamboo.

In Sind, Baluchistan and parts of the West Punjab, the climate being drier, forests shrink into shrub jungle, the commonest tree being acacia in its various species. Sal and shisham grow in West Punjab and N. W. F. P. especially in the irrigated areas. Pine forests are found in the submontane regions of Murree, Hazara and the States of Amb, Swat, Dir and Chitral.

These forests with proper conservation and exploitation can support several industries like lumbering and sawing, paper, matches, etc. Minor forest products like rosin, drugs and tanning materials can be used for the manufacture of paints and varnishes, chemicals and pharmaceutical and tanning industries. Irrigated plantations and shrub jungles can supply fuel wood and also provide timber for the manufacture of high class furniture. Pine forests could meet the requirements of the building industry.

9. **Forest Policy.** In 1894 Government of India out-lined certain principles with regard to the management of the forests. These may be called its forest policy. The main features of this policy were : (*a*) Sufficient forests to be retained for protective purposes. (*b*) Enough forests to be kept for the requirements of the general public. (*c*) Supply of forest produce to the rural community to come before consideration of revenue. (*d*) As regards land utilization, cultivation to have a prior claim to forestry.

The main defect of this policy was that it was static and not dynamic. It aimed at preservation of forests not their extension and development. No attempt was made to define the minimum requirements of the country. Somehow under this policy the forests of what is now Western Pakistan were thoroughly neglected and at the time of partition we found them hopelessly depleted and devastated resulting in serious shortage of timber, wide spread soil erosion, drying up of water sources and deterioration of climate. The old policy was therefore unsuited for Pakistan.

After partition the Pakistan Government through their Inspector-General of Forests Mr. Petty called two Conferences of

Senior Forest Officers, one in 1947 and the other in 1948 At these Conferences the forest problems of the country were considered The whole matter was again put before the Pakistan Forestry Conference held in Karachi early in July, 1949. This Conference was attended by ministers of different provinces and states, Advisors of Baluchistan and representatives of the Central, Provincial and State forest services and some Ministers of the Central Government.

This Conference recommended a new policy aiming not only at conservation but also development of forestsn Pakistan The main recommendations of the Conference were .—

(1) A high priority be given to the claims of forestry and adequate facilities provided for large scale afforestation.

(2) The practice of sound management in privately owned forests should be ensured by legislation or negotiation and by technical and, if necessary, financial assistance.

(3) Legislation be enacted appropriate to the needs of the country to provide power to control utilization of land and define the scope of work of forest service in a co-ordinated programme of soil conservation and land utilization.

(4) It is of paramount importance to associate public opinion in the execution of policy, through education, propaganda and demonstration.

(5) Forests be classified on the basis of their utility and objects.

(6) The commercial aspect of forestry be generally subordinated to the oversiding necessity of integrating it into the general context of the economy of the country as far as possible.

(7) In view of the acute deficiency of forest area in the country a bold and well planned action be undertaken for increasing forest area by .—

(*a*) reserving at least 10 % canal irrigated land and 10 % water supply for raising irrigated plantations under new projects,

(*b*) growing trees on canal banks road and rail road sides and arable waste land and

(*c*) Introducing farm forestry, preferably in compact plots of crop land, set apart on co-operative basis by village community,

(8) existing forests be developed by encouraging the most economical utilization of timber and other forest products;

(9) policy be executed by the agency of forest service consisting of only trained foresters.

(10) forest research, an important requisite for success of a dynamic science like forestry, be organized on suitable lines and he centralised in Pakistan Forest Institute, with ancillary field units in different problem areas of the country,

(11) more affective measures be taken for the preservation of the fauna of the country.

The Conference also recommended the constitution of an All Pakistan Forest Service, East Bengal dissenting,

It will be seen that these recommendations have a wide scope including conservation, research and development. If these measures are carried out, with as much enthusiasm as they have been formulated with, we can hope for a bright future for our forests and consequently for our economy in so far as it depends upon the adequacy of forests. The driving force should come from the centre and the forest plan should form an integral part of the All Pakistan Plan of Economic development. Proper machinery should be created to execute the policy outlined above.

10. Livestock Resources : Livestock serves three purposes : (*a*) It provides food in the form of meat and dairy products. (*b*) It is a source of power for agricultura operations like ploughing the fields, irrigation through wells, crting agricultural produce etc. (*e*) It provides hides and skins bones and hair as raw materials for various industries.

The output of dairy products depends upon the number of breeding cows and buffaloes, goats and sheep and their average yield of milk. The followiug table gives statistics for India and Pakistan for the year 1938.

Figures in Lakhs.

	Breeding Cows	Breeding Buffaloes	Total
Indian Union ...	355	160	515
Pakistan ...	94	32	126
Percentage share of Pakistan ...	20.9	16.6	18.1

1. Figures from Vakil's Economic, Consequences of Patition.

Having a population percentage of 19·5 it will be seen Pakistan possesses proportionate share of breeding cattle. The share in buffaloes, however is lower than that in cows. But since the largest yield of milk is given by cows in the West Punjab, Pakistan on the whole is better off as regards her dairy resources than India. While production of milk per head of population per day in West Punjab is 18 ounces, it is less than 8 ounces in the Indian Union.

As regards the production of hides it is a function of the total cattle population. The relevant statistics are given below :—

	Indian Union	Pakistan	Percent Share of Pakistan
Cows (Lakhs) ...	617	166	21 2
Buffaloes (Lakhs) ...	282	50	15.0
Raw cow hides (lakhs pieces)	169	36	17 5
Raw Buffalo hides ...	53	9	14 5

Pakistan's share, taking buffaloes and cows together, is strictly proportionate to her population (19·3%) While there is an excess in cows there is deficiency in buffaloes.

As regards hides it is interesting to observe that while in the case of buffaloes the proportion of cattle heads and hides is about the same (15%) in the case of cows the proportion of cow hides (or kips as they are called) is higher than the population of cow heads. This is due to the absence of any scruples on the part of Muslims regarding the eating of beef.

Similarly figures are given below regarding goats and sheep:—

	Indian Union	Pakistan	Percent Share of Pakistan
No. of Goats (Lakhs) ...	490	90	15 5
No of Sheep (Lakhs) ...	400	60	13 0
No of Goat Skins (Lakhs)	330	45	17.5
No. of Sheep Skins (Lakhs)	150	20	11.8

Although Pakistan's share of raw hides and skins is about 15 % of the all India total its share in the export trade has not been more than 5 %. The reason is that 92% of the tanneries of undivided India were located in Cawnpore, Calcutta and Madras —all in the Indian Union. A large part of the export of hides and skins is tanned. Pakistan must establish her own tanning industry for which she possesses every facility.

1. Figures from Vakil : Economic Consequences of Partition.

11. Well known Breeds of Pakistan's Cattle. Pakistan possesses some of the best breeds of cattle, sheep, goats, horses and camels. The most famous breeds of cattle are Red Sindhi and Sahiwali for milk, Thari Bhagnari and Dhanni for draught, Lohani and Rojhan for lighter work. Ravi and Nili are well-known buffalo breeds. The present estimate of the total bovine population in Pakistan is about 30 million heads. Bulk of it, however, is of poorer quality especially in Eastern Pakistan.

The important breeds of sheep are fat-tailed Hashtnagri, Harnai, Bibrik and Waziri, the thin-tailed Damani, Kaghani and Lohi. The sheep are mostly fouud in Western Paklstan especially in N. W. F. P., Baluchistan and Sind. Their total estimated number is 6,145,000 The yield of wool per sheep per year is 4 lbs. and it is used for carpet making. A scheme for grading of wool is shortly being introduced in the country.

As regards goats their well-known breeds are Kaghan Valley, Dara Din Panab, Danni, Barbari, Kamori, Black Bengal, and White Bearded Bengal. They mainly yield hair, skin and meat and some are also good milkers. The policy is to restrict their number since their free grazing contributes to soil erosion. Their total number is estimated at 92,00,000 in Pakistan.

Horses are mostly used for transport. Their best breeds are found in Baluchistan and West Punjab. Pakistan has about 5,40,000 horses, about 9,13,000 donkeys and 35,000 mules which are also used for transport.

The camel is mainly found in the arid regions of Sind, Bahawalpur and Mekran. They are used for ploughing, transport and as pack animals. Moreover they yield hair and hides. Their number is about 4,50,000.

A word may also be said about poultry which is found in large numbers in Pakistan. The important breeds are Chittagong Aseel and Sarail. The aim is to encourage the production of the superior foreign breeds. The total number of fowls is estimated to be 2,30,00,000 and of ducks (mostly found in East Pakistan) at 50,00,000.

12. The Problems of Cattle. The problems of Cattle in Pakistan as in India are: (*a*) Inferior (1) quality as regards physical strength and milk yielding capacity. (*b*) High Cattle mortality due to prevailance of cattle disease.

Inferior quality is due to (*i*) indiscriminate breeding, (*ii*) inadequate and unscientific feeding (*iii*) and indiscriminate slaughter. Indiscriminate breeding is the result of indifferent

quality cows being covered by indifferent quality bulls in the course of free grazing on the stubble or the village common. Inadequate feeding is due to pressure on the soil for food grains and waste of cattle feed due to unscientific methods of feeding and grazing. The quality is further deteriorated due to slaughtering of animals irrespective of their uses for other purposes.

[illegible] the supply of specially selected or specia[illegible] ulls are bred at the Hissar Farm which [illegible] xperiments on improving milking capacity are carried on at the Indian Research Institute at New Delhi Pakistan has yet to set up such institutions.

The problem of better feeding can be solved (*i*) by reducing the number of the cattle by eliminating the superfluous ones and by controlled breeding, (*ii*) by increasing the supply of fodder through extending the area under fodder crops, production of high yielding fodder crops and by using what feed is available more economically and efficiently. This last can be done by stall feeding of animals, by preparing silage from inferior crops and waste, by cutting the grass and preserving it as hay, by chopping fodder by the modern cutters etc.

Indiscriminate slaughter can be prevented by regulation through legislation with heavy penalties for defaulters.

As regards cattle diseases they are countless in number and visit the rural areas frequently in epidemic form. These are due to low vitality, unhygienic surroundings and polluted drinking water. Both preventive and curative measures are necessary and the Provincial Veterinary Departments are supposed to be doing something in this connection—e.g., prevention by inoculation and curing through supplying veterinary aid. The system, however, has produced very limited results due to a very limited number of veterinary hospitals and dispensaries, conservatism of the villagers and also corruption among some of those who should know better.

Since the birth of Pakistan the Government has taken several measures to tackle the problems relating to our livestock. A conference of Veterinary Experts was called in Nov. 1947 which took a number of decision. A Veterinary Research substation has been set up at Comila in East Bengal and the main Veterinary Institute-Cum-Bureau of Laboratories for the production of Sera and Vaccines is being set up at Peshawar. An Animal Husbandry Commissioner has extensively toured Pakistan to investigate the problems of animal breeding, feeding and disease.

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(1). Milk yield per animal in Pakistan is 30 gallons per annum as against 387 in Denmark, 380 Switzerland and 326 in Sweden.

To maintain the purity of Pakisan's famous breed of cattle either a government farm is to be set up or selected breeders will be given subsidies. Several other schemes including Dairy Schemes are also under consideration.

13. Fisheries and their Development. Pakistan possesses abundant fish resources. Fisheries are of three kinds: (*i*) Marine, (*ii*) estuarine and (*iii*) inland fresh water. Sind, Baluchistan and East Bengal having access to the sea, possess marine fisheries. Estuarine fisheries are found in the Gangetic delta of the Sunderbans and the Indus delta. Inland fresh water fisheries are also found in these regions.

East Bengal is very rich in fish and large quantities are consumed there. It produces not only enough for its own use, but more for export to West Bengal.

The Governments of West Punjab, Sind and East Bengal have properly organised Departments of fisheries through which schemes for development of fisheries have been formulated.

A motor trawler is being used for deep-sea fishing on experimental basis at Karachi. According to a scheme recently approved a new Fish Harbour will be constructed at Karachi. This will provide all modern facilities for berthing of fish boats and trawlers, modern hygienic fish curing, extraction of shark liver oils, cold storage arrangements and also wholesale marketing arrangements.

There is a Central Fisheries Organization now at work at Karachi. Its extension to East Bengal coast is under consideration. Government is also considering the advisability of getting foreign experts to assist in the planning and development on modern line of fisheries and fish industries in the country.

Pakistan has also become a member The Indo-Pacific Fisheries Council of the Food and Agricultural Organization of the United Nations. The purpose of this Council is to tackle fisheries problems of the Indo-Pacific region on a collective and co-operative basis.

14. Conclusion Regarding Natural Resources: Pakistan is a fairly large country, the fifth biggest state and the largest Muslim State in the world, according to area. The state, however, is in two portions separated by more than a thousand miles of Indian territory, which is its weak point. The population on the whole is homogeneous and is bound by

CHAPTER I

APPENDIX I

Cattle and poultry Population of Pakistan in 1948
(thousand heads)

	Oxen	Buffaloes	Sheep	Goats	Horses	Donkeys	Mules	Camels	Pigs	Fowls	Ducks	Annual catch of fish (1948) Thousand maunds
Bahawalpur State ...	657	250	454	326	19	30	...	36	...	202	...	1
Baluchistan ...	159	10	549	419	7	36	..	30	...	177	...	...
Baluchistan States ...	140	1	431	420	6	39	...	38	...	192	...	93
East Bengal ...	14,739	577	226	4,198	60	...	...	...	...	16,478	4,999	30,016
Khairpur State ...	122	33	31	110	19	5		13		153	...	...
N.W.F.P. ...	860	275	376	489	39	184	11	40	...	802	19	2
Sind ...	1,958	702	638	1,414	106	126	...	105	...	791	1	390
Tribals Area & Agencies	294	24	252	552	6	36	9	19	...	647	...	1
Punjab &	5,367	3,728	3,168	2,139	203	457	21	173	...	2,806	31	15
Total ...	24,296	5,600	6,145	10,067	470	913	41	454	104	22,248	5,063	30,518

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APPENDIX II

Animal Products in Pakistan (1948)

(1000 maunds except where otherwise stated)

	Meat	Edible offal	Heads and trotters.	Animal fats	Milk	Ghee (1)	Eggs 1000 eggs	Wool	Hair	Hides 1000 pieces	Skins 1000 pieces.	Fur etc. 1000 pieces.	Guts 1000 pieces.	Bones	Dung	Urine
Bahawalpur State ...	119	16	11	5	4,738	109	4,945	20	3	74	198	102	173	59	145,325	27,10
Baluchistan ...	197	38	23	23	1,885	37	4,702	36	9	24	613	10	556	45	27,010	4,713
Baluchistan States ...	167	33	20	17	1,909	35	3,332	14	9	20	510	...	431	41	22,457	3,870
East Bengal ...	2,403	279	212	60	26,931	377	384,931	3	...	3,314	1,830	719	2,643	1,800	1,576,531	424,541
Khairpur State ...	16	20	1	...	1,266	23	3,850	1	1	9	54	...	41	11	25,163	4,544
N. W. F. P. ...	751	79	56	39	8,096	158	20,320	15	4	239	553	152	671	194	182,565	33,531
Sind ...	283	54	33	12	26,391	520	20,055	29	15	226	925	52	756	195	433,985	79,223
Tribal Areas & Agencies	248	39	26	19	2,684	52	15,665	9	4	85	517	121	405	60	51,100	8,924
Punjab ...	2,888	305	218	106	81,827	1,534	68,827	102	40	1,185	2,324	756	2,718	955	1,475,695	282,992
Total ...	7,072	863	600	281	155,827	2,845	526,687	289	55	5,149	7,564	1,903	8,542	3,261	4,243,222	859,503

(1) This ghee is produced from part of the milk under previous column.

common religious ties. More than 90% of the people live in villages hence the predominantly rural character of Pakistan's economy.

The existence of mineral resources is basic for industrial development. Pakistan is rather poor in this respect. There is a serious lack of metals and paucity of coal. There is, however, a fair amount of petroleum but the main source of power will have to be hydro-electric energy. The potentialities for hydro electricity, though considerably diminished by partition of the Punjab, are still quite large in both the parts of the Dominion. Steps are already being taken to develop these resources.

Pakistan does not possess adequate forest resources, the area under forests being only 5% of the total. A policy of afforestation and conservation is indicated. Pakistan has quite a satisfactory number of cattle but its quality is poor. Better breeding and feeding arrangements are called for. Pakistan has fertile soil and excellent irrigational facilities What use has been made of them is the subject of the next chapter.

CHAPTER II

AGRICULTURAL PRODUCTION

1. **Importance of Agriculture**: India as a whole has always been a predominantly agricultural country. The areas now demarcated as Pakistan are even more highly agricultural. In fact our future development must necessarily depend upon how we re-organise and develop our agricultural resources. Agriculture in Pakistan will have to meet the following needs of the country:

(*i*) It must produce enough food in the way of foodgrains, fruit, vegetables and dairy products, to feed the growing population of Pakistan.

(*ii*) It must supply raw materials for our industries like cotton textile, jute, oil products, sugar etc. as they are developed.

(*iii*) It must provide us with a surplus for export to enable us to command foreign exchange for essential imports for our industrial development and other consumer's requirements.

(*iv*) It must help in the absorption into gainful employment the major portion of the refugees that have been forced into Pakistan as a consequence of disturbances in the Indian Union.

(*v*) Finally, it must supply stalwart soldiers to our armed forces through promoting traditions of an independent and prosperous perasantry.

How far our agriculture will play these roles effectively will depend upon the degree and manner of employment of scientific knowledge to our agricultural methods and organisation.

The present position of our agriculture is indicated by the way land is utilized at the moment.

2. **Land Utilization in Pakistan**: The table that follows classifies land in India and Pakistan from the point of view of the various uses to which it is being put. Figures for Kashmir are given separately.

(Year 1938-39).

Classification of area	Indian Union Million acres.	Indian Union % of total.	Pakistan Million acres.	Pakistan % of total.	Kashmir Million acres.	All-India Total acres.
Net Sown ...	231	42	43	37	2	277
Current Fallow ...	50	9	11	9	0 3	61
Total cultivated ...	281	51	54	46	2.3	338
Forests ...	80	15	5	5	2	87
Not available for cultivation ...	90	16	30	26	3	123
Other uncultivated land ...	83	18	26	23	1	115
Total uncultivated ...	258	49	61	54	6	325
Total land ...	539	100	115	100	8·3	663
Total population (Millions)	314		71		4	389
Per capita sown acres	·70		·60		·50	·72
Irrigated area (mill. acres)	49		20		1	70
Percentage of irrigated to cultivated area ...	18		36		4	21
Area under food crops (mill. acres) ...	202·6		37·7		2.3	242.6
Area under non-food crops (mill acres) ...	50.0		2		0.2	59.1
Percentage of the total under foodcrops ...	78		77		90	75

Some very interesting conclusions flow from this table :—

(*i*) Smaller percentage of the total area is sown and cultivated in Pakistan than India. Percentage (not available for cultivation) is much higher and (other uncultivated land) fairly higher in Pakistan as compared with India. Scope for further extension of cultivation is thus relatively higher in Pakistan than in India.

(*ii*) Area under forests is relatively much smaller in Pakistan and in fact very inadequate from every standard. This points towards the necessity of afforestation schemes being introduced in Pakistan as early as possible.

(*iii*) Sown area per head of population is less than an acre in both the Dominions but in Pakistan it is smaller than in India.

Since the degree of industrialisation is extremely meagre in Pakistan this indicates a much higher pressure on land in Pakistan than in India. Due to increase in population during the last eight years without a corresponding increase in the sown area, area per head must be in the neighbourhood of ·5 acres in Pakistan at present, which cannot be regarded as adequate under conditions of primitive agriculture and lack of alternative employments for the population.

(iv) Pakistan has, however, this advantage over India that the percentage of irrigated area to total cultivated area is double of what is in India. Thus the disadvantage of smaller per head sown area is more than compensated by the greater productivity of irrigared land. It is because of this that Pakistan is not only self-sufficient in food but also is in a position to export foodgrains.

3. **Agricultural Production—food crops:** As we have seen in the above table the area under food crops as a percentage of the total area under crops is slightly higher in India and so is per capita acreage under food crops. Even then Pakistan is a surplus country as regards food production. This is due to the greater productivity of the soil in Pakistan, mainly due to better facilities of irrigation. This is indicated by the yield of the staple foodgrains of the country. In the table[1] below are given statistics showing the relative position of Pakistan and the Indian Domioion in the matter of acreage and production of food grains (cereals only). The statistics relate to the year 1942-43.

Food grains	Area million acres.			Yield million tons.		
	All India Total.	Pakistan	% share of Pakistan	All India Total	Pakistan	% share of Pakistan
Rice ...	79·0	19·7	24·9	26·6	6·5	24 4
Wheat ...	35·3	8·9	25·2	11 2	3·9	34·8
Jowar ...	40·0	1·3	3·2	7·4	·3	·8
Bajra ...	26·3	2·8	10·7	4·8	·6	12·5
Maize ...	8·7	1·3	15·0	3·0	·5	16·6
Barley ...	7·9	·5	6·3	2·5	·2	8·0
Ragi ...	5 8	...	...	1·7	...	...
Small milles ...	9 0	...	...	1·5	...	...
Total ...	212·0	34·5	16·3	58·7	12·0	20·5

1. See "Food statistics of India".

It is clear from the above table that in Pakistan land is relatively more fertile as compared with land in the Indian Dominion. While in acreage under cereals Pakistant's share is 16·3 per cent., in production it is as high as 20·5 per cent. Individual crops also tell the same story. The lower yield in the case of rice is due to the special circumstances of the year to which the statistics relate. Yield in Bengal that year war lower due to certain natural calamities. On the basis of figures for 1939-40 while Pakistan had 26·9% of the total area under rice, she was responsible for 28% of the total yield of the sub-continent.

The following table gives detail of the two most important food-grains of the country.

Area and yield of Wheat and Rice (1939-40)

	Crops	India	West Pakistan	East Pakistan	Total	Total India
Area (mill. acres)	Wheat	18·1	8·7	negligible	8 7	26·8
	Rice	51·1	1·7	16·9	18 6	69·7
Yield (mill. tons)	Wheat	5·1	2·8	negligible	2 8	7·9
	Rice	16·5	0 7	5·7	6·4	22·9

Thus as regards wheat while India has 67·5% of the total area it accounts only for 64.4% of yield. Pakistan on the other hand with 32.5% of the area contributes 35.5% of the yield Wheat is almost entirely produced in West Pakistan. In 1944-45 this zone had a surplus of 6,20,000 tons of wheat, while East Pakistan which produces negligible quantity of wheat had a deficit of 1,77,000 tons in the same year.

As regards rice, as already noted, India has 73.1% of the total area but only 72% of the total yield : Pakistan has 26·9% of area and 28% of the yield. 84% of the total area under rice in Pakistan lies in East Bengal which produces 90% of the yiedi Rice is the staple food of East Pakistan while wheat is that of West Pakistan. In 1944-45 the deficit of rice in East Bengal was 765,000 tons. But since wheat has not been able to replace rice in the diet of East Bengal surplus of wheat from West Pakistan cannot meet the deficit of rice in East Pakistan. Thus wheat has to be exchanged for rice before it can be said that Pakistan can feed itself out of its own production of food-grains. This

[1] States are excluded. No details available.

difficulty can be solved by agreement with India according to which Pakistan could supply wheat to Western Provinces of India in return for rice supplied to Eastern Pakistan by India.

Another important food product is sugar in which Pakistan is seriously deficient. This is so because of the lack of sugar mills in our country even though we have fairly good proportion of sugarcane. Thus in 1943-44 while Pakistan had 14% of the total all-India acreage under sugarcane, this country produced only 2% of the total factory sugar. This meets hardly 10% of our needs. The deficiency can be met by starting more sugar mills in Pakistan. Plans are afoot to start one of the biggest sugar mills of this sub-continent in N.W.F.P., at Mardan, which will produce about 50,000 tons of sugar a year.

While India is self-sufficient in sugar she is deficient in food-grains and has to depend upon imports either from Pakistan or elsewhere.

4. **Non-food Crops:** The most important non-food crops of Pakistan are jute and cotton. Among others are tea, tabacco and oil-seeds.

(*i*) *Jute*: Jute is the most profitable cash crop of Pakistan and is produced entirely in the province of East Bengal. The most important producing districts are Mymensingh (which contributes 25% of the total yield), Rangpur, Dacca, Faridpur, Tippera, Jessore, Rajshahi and Pabna.

The area and yield in the two Dominions for the year 1947-48 are given below:—

	Pakistan	Indian Dominion	Total
Area (Lakhs) acres	20 58	6 45	270·4
Yield bales (Lakhs)	68·42	16·95	85·38
Percentage share area	76·1	23 9	100 0
Percentage share yield	80·1	19·9	100·0

The whole sub-continent produces 98% of the world's raw jute. Over 80% of the total production is contributed by Pakistan. In the pre-partition India, Jute formed 25% of the value of the total export trade of the country. Its value for Pakistan is indicated by the fact that 75% of the value of our exports is contributed by Jute. The area under Jute is only 4%

of the total cropped area of Pakistan and about 8 to 10 per cent. of the cropped area of East Bengal.

Another important fact about Pakistan Jute is its superior quality as compared with Jute produced in the Indian Dominion. Jute produced in the Pakistan districts of Bengal is "of hard and medium-hard qualities, is fairly strong and contains a good deal of high coloured fibre suitable for the manufacture of the high grade hessian."[1] Hence India will always stand in need of high-class Pakistan Jute for her factories.

This brings us to the other side of the picture. Although Pakistan produces 80% of the total raw Jute of this sub-continent she possesses not a single Jute Mill. All the 91 Jute factories are situated in the neighbourhood of Calcutta in the Indian Dominion. Even baling presses in Pakistan are not adequate in numbers. East Bengal has only 31 pucca baling presses with a monthly capacity of 2,29,975 bales. There are about 2,000 kutcha baling presses of which 75 are engine-drawn. Their baling capacity is very low, about 100—125 bales a day. The Government of Pakistan have made arrangements for five more pucca baling presses.

As regards Jute Mills, East Bengal requires at least 30 such mills with 500 looms each. This is the long-term target of the Pakistan Government. The short-term plan is to establish two Mills of 1000 looms which are being shortly set up. In addition the Chittagong Jute Products Ltd. are setting up a Jute Mill at Chittagong in the near future, another Jute Mill is being set up by another private concern. Jute Mill machinery for one of these Mills has already arrived at Chittagong.

In the meantime, however most of the raw jute of Pakistan will have to be exported. Until recently Calcutta was the sole outlet for exports. Now Chittagong is steadily gaining importance as a port. In October, 1947 only 984 bales were exported from this port. By May, 1948 the figure had steadily risen to 1,31,829 bales (of 400 lbs. each). India is the chief consumer of Pakistan jute. In 1947-48 season Pakistan exported 58 lakh bales to the Indian Union. The quota fixed for the 1948-49 season under the Indo-Pakistan Trade Agreement of May, 1948 was 50,00,000 bales. According to the latest Indo-Pakistan Trade Agreement Pakistan has allotted 40,00,000 bales to India in spite of smaller estimated Jute crops this year i.e. about 55 lakh bales.

1. Vakil: Economic Consequences of Partition, p. 19.

Since bulk of the Pakistan Jute is purchased by India, Indian policy with regard to purchase of Jute greatly influences the price of Jute in Pakistan and consequently the prosperity of the Jute producer.

Recently Indian Jute mills have been following a restrictionist policy in the production of Jute goods and the Indian Jute dealers have been slow to purchase Pakistan Jute. Consequently Jute prices have been falling with serious consequences for the peasanty of East Bengal Pakistan's no devaluation decision has made the position still more difficult as we shall see in a subsequent chapter.

The only remedy for Pakistan is to have her own Jute Mills for manufacturing Jute goods and to have direct export trade with other foreign countries. At the moment only a small proportion of Jute exported to foreign countries by Pakistan passes through her own port of Chittagong.

During 1948 49 while exports through Chittagong came only to Rs. 24 8 crores, Jute going across the Indian land-frontier was valued at Rs. 84·7 crores. Much of the latter was exported overseas to foreign countries through Calcutta.

The total value of raw jute produced in East Bengal came to about Rs. 116 crores for the year 1947-48. During 1948-49 the value of Jute exports alone came to Rs. 10?.6 crores. At the rate of Rs. 170 per bale of 400 lbs. Pakistan's normal production of Jute yields a per acre income of 578 a year! No wonder it is lled the "Golden Fibre" of East Bengal.

(ii) Cotton: The areas under cotton and yield for the two inions in 1939-40 and 1945-46 were as follows:—

Regions		Acreage Thousand acres. 1939-40	1945-46	Yield 1000 bales of 400 lbs each. 1939-40	1945-46	Yield per acre in lbs. 1939-40	1945-46
West Punjab	Desi	1,400	850	580	300	165	141
	American	1,700	1,900	600	630	141	132
Sind	Desi	229	117	83	53	145	181
	American	680	750	251	318	148	170
E. Bengal		90	85	27	23	120	108
N W.F.P.		10	13	3	4	120	123
Total Pakistan		4,109	3,715	1,544	1,328	150	142
Total Indian Union		17,477	10,765	3,365	2,114	77	79
Total All-India		21,586	14,480	4,909	3,442	91	95
Percentage share of Pakistan		18·5	25·6	31·5	38·6		

It is clear from the above table :—

(*a*) While Pakistan has about 26% of the total area it contributes about 39% of the production. This is due to the higher per acre yield in Pakistan especially in the canal irrigated areas of Sind and West Punjab.

(*b*) West Punjab is the largest producer of cotton in Pakistan. In 1945-46 it produced about 70% of the total.

(*c*) The (long staple) American cotton is almost entirely produced in West Pakistan, about 70% of the total being produced in West Punjab.

(*d*) During the War period while area and production in Pakistan fell by about 10% the fall in India was as high as 39% in the case of area and 37% in the case of production.

(*e*) Taking the different varieties of cotton grown in Pakistan the fall was only in the case of desi cotton. Thus while the area under desi cotton fell by 38% (about the same degree of fall as in India) area under American cotton *rose* by 11%.

This explains the reason of the larger reduction of area under cotton in India. The area under desi cotton was reduced by about the same proportion all over the sub-continent in order to divert more land towards growing more food. In West Punjab and Sind much of the area released from desi cotton was put under American cotton which was required for weaving superior cloth by the Indian mills.

Since the partition there has been a serious fall in the production of cotton in Pakistan as the following table reveals. The figures relate to the final forecasts for the two years compared.

	Area 1000 acres		Yield 1000 bales of 400 lbs each		Percentage change in 1946-47 over 1947-48 Increase + and decrease −	
	1946-47	1947-48	1946-47	1947-48	Area	Yield
West Punjab	1,877	1 836	814	614	−2·2	−24·6
Sind	856	797	374	310	−6 9	−17·
E. Bengal	55	55	14	14	...	..
N W F.P.	5	6	1	2	+20·0	+100 0
Total Provinces	2·793	2,694	1,203	940	−3 6	−21 9
Bahawalpur	405	390	162	156	−3 7	−3 7
Khairpur	30	38	12	14	+26.7	+16 7
Total States	435	429	174	170	−1.6	−2 3
Total Pakistan	3,228	3,122	1,377	1,110	−3.3	−19·4

Thus in one year while area under cotton in Pakistan fell only by 3·3 per cent production went down by as much as 19·4 per cent. In the West Punjab while area fell by about 2% production decreased by about 25%. The higher reduction was thus in the West Punjab, Sind coming next. This great loss to Pakistan can be almost entirely explained by the disturbances following partition and their aftermath which was mostly borne by the West Punjab. The outgoing non-Muslims destroyed crops on their way to India—a sort of a scorched earth policy. Moreover, migration of populations took place just as the season for picking was to commence. The refugees that came from the East Punjab could not be settled quickly enough to be able to gather the crop properly and in time. Hence much of the crop was wasted.

The prospects for the year 1948-49 could not be very bright either. Refugees were allotted only a few acres each family on which they could hardly grow their food. Moreover, they had no experience of cultivating and handling the American cotton of the canal colonies, since they were used to the desi cotton of East Punjab. Added to this was the loss due to excessive rains and consequent floods of 1948. It could not be expected therefore that cotton production would reach its old pre-war figure of about 14 lakhs bales in the West Punjab. While the estimate of the final forecast was 13 lakh bales, actually only 10 lakh were produced. The area under cotton fell by one lakh acres This fall in production has been at a time when the world production of cotton in the current year has been estimated to be 15% higher and world consumption 2% lower than the year 1947-48. This has led to the price of raw cotton to fall. Thus Pakistan producers have lost both on quantity and price. A further fall in cotton price has been caused by our decision regarding the external value of the Rupee.

Pakistan needs cotton cloth but has to export cotton due to the absence of her own industries. This deficiency must be made good as soon as possible. Moreover, our cotton export policy needs careful framing, a subject to which we shall return later.

The importance of cotton to Pakistan is shown by the fact that in 1946-47 the total value of cotton produced in the Punjab was Rs. 30 crores and in Sind Rs. 15 crores. Even the reduced crop of the year ending 31st March, 1948 contributed Rs. 30 crores to our total exports from Karachi, *i.e.*, 75% of the total value of exports.

(iii) Tea. After Jute tea is the most important cash crop of Eastern Pakistan. The total area under tea in undivided India (i.e. 1946) was 838,000 acres, which yielded 559,000,000 lbs. of tea. Of this 89,000 acres were in Sylhet of which Pakistan got 67,000 acres as estimated by the Indian Tea Licensing Committee. The other tea growing areas in Pakistan are Chittagong and Chittagong Hill Tracts which have about 8,000 acres of tea. The total area under tea in Pakistan, therefore, comes to about 75,000 acres. If the production is in the same proportion as the area (i.e. 9%) the estimated yield for Pakistan in 1946 should have been about 50 million lbs. The total production during 1948-49, however, has been estimated at about 45 million lbs.

Immediately after partition the Pakistan tea industry was faced with several serious problems. Among these were the sudden drying up of the traditional source of supply of seed and tea chests, difficulties of finance due to disruption of banking facilities based on Calcutta etc. To resolve these difficulties a Conference of producers, brokers, shippers, bankers and all others concerned with the tea industry was convened by the Pakistan Government at Sylhet in January 1949. As a result of the recommendations of this Conference several steps have been taken to help the industry. Among these are: A Tea Board is to be established for licensing and marketing of tea; Zoning Committees have been formed for surveying derelict gardens, Tea Licensing Committees have been set up at Chittagong and Sylhet to allocate the 2% extension of cultivation permissible under the International Tea Agreement to which Pakistan is now a party; some 62,000 lbs of good quality tea seed have been obtained from abroad; import of tea chests have been placed on open general licence from all soft currency areas and requests for imports from hard currency areas are to be liberally granted; there is a proposal to construct a covered warehouse with 2,00,000 square feet of accommodation before the end of this year; certain existing storage facilities have to be placed at the disposal of the tea trade, railway priorities have been granted to remove inland railway bottlenecks; and supplies of coal, fuel oil, kerosene and fertilizers have been made readily available to the tea estates.

As a result of these measures it became possible to hold the first Pakistan tea auctions on July 16, 1949 at Chittagong. Between 2,000 to 3,000 chests of tea are reaching Chittagong every week. It has thus been possible to export 6,500,000 lbs. of tea from Chittagong between 1st April and 31st July 1949; as against only 166,000 lbs. during the same period in 1948.

Pakistan is now one of the signatories of the International Tea Agreement, which regulates the production and export of the principal producing countries. In 1948-49 Pakistan exported tea valued at Rs. 3.75 crores of which Rs 3.55 crores worth were exported to the United Kingdom. Pakistan had contracted to supply 28 mill. lbs. to his Majesty's Government during the year.

Pakistan produces no coffee. This still more increases the importance of the " cup that cheers. "

(*iv*) *Tobacco.*—The area under tobacco in Pakistan on the basis of 1938-39 figures is about 3½ lakhs of acres. This is about one-third of the total acreage in the Indian sub continent. The annual production is about 1½ lakh tons which is again about one-third of the All-India production. Thus in proportion to population Pakistan was better off in this particular product before the war Figures relating to later years show much less area under tobacco in Pakistan and also much smaller yield. For instance in 1945-46 out of the All-India acreage of 12 lakh under Tobacco Pakistan's share was only about 2 lakhs. As regard yield Pakistan contributed only 88,000 tons to the total All-India production of 4.23 lakh tons (*i.e.* 20.8%).

There are no statistics to show how much of this tobacco is consumed in the form of biris and cigarettes and how much is used without being processed. It is known, however, that all the 279 tobacco factories including biri factories (1942 figures) have fallen in the Indian Union.

(*v*) **Oil Seeds.** The following table[1] indicates the share of Pakistan in the total area under and production of oil seeds in the Indo-Pak sub-continent. The figures relate to the year 1938-39.

	Area 1000 acres.			Yield 1000 tons.		
	All-India total	Pakistan	% share of Pakistan	All-India Total.	Pakistan	% share of Pakistan
Groundnuts ...	8,439		...	3,196	negligible	...
Sesamum ...	4,331	215	4·9	396	32	8·0
Rape and Mustard ...	5,603	1,199	21·8	926	232	25·0
Linseed ...	3,894	78	2 0	445	14·5	3·2
Castor seed ...	1,199	5	...	111	negligible	...
Total ...	24,371	1,499	6·1	5,074	279	5·5

1. G. L. Bansal: India and Pakistan (Statistics), p. 9.

It is clear from the above table that the position of Pakistan in the matter of oil seeds is much weaker as compared to the Indian Union. Pakistan has 6% of the All-India area under oil seeds against Indian Union's 94%. The position regarding the yield is also smaller. India has a virtual monopoly in groundnuts while Pakistan's production in this product, linseed and castor seed, is negligible. The only oil seeds in which Pakistan has a fair share is rape and mustard.

Oil seed was an important item in the export trade of pre-division India and is still so in the case of the Indian Union. 1945-46 it brought over Rs. 13 crores from foreign countries. Oil seeds are also used in the country as food, source of edible oil and cattle feed, and supply raw material for lubricants, paints etc. Pakistan must grow more oil seeds to meet her requirements and also to earn foreign exchange through export.

Thus as regards non-food crops, Pakistan is predominant in cotton and jute, self-sufficient in tea and tobacco and is deficient in coffe and oil seeds. The small amount of coffee consumed can be imported, but Pakistan must grow more oil seeds in the interests of her cattle and oil products.

5. The Need for Increasing Agricultural Production: Agricultural production is the mainstay of Pakistan. The whole of economic development of Pakistan must ultimately depend upon the surplus produced by our soil. Pakistan has been called a surplus food area. This is true only in a very limited sense. We may be able to spare some wheat in a normal year. But with the least abnormal circumstances like the flood or failure of rains this surplus can easily turn into a deficit, as during the year 1948. Moreover, in order to feed East Bengal, which does not produce enough rice even in normal years, we have to exchange much of our wheat surplus with rice. The actual surplus remaining after this transaction does not show a wide margin. The influx of about 20 lakhs more refugees has created more mouths to feed and the population of Pakistan will continue its usual rate of increase. Finally, merely because at given prices there is surplus to export does not mean that the masses are being adequately fed. Our surplus food position, therefore should not lead to complacency. If no steps are taken to increase our food resources, even this uncertain surplus will disappear within a few years due to the natural growth of population.

As regards our non-food crops, cotton, jute, hides and skins and tea are the most important. Cotton will have to be turned

into cloth for clothing our masses. The surplus available for export will thus progressively decrease unless production is further increased. We are not getting the best value out of our jute as long as we do not manufacture it into jute goods ourselves and as long as we have to depend upon Calcutta for sending our raw jute to foreign countries. India is trying to become independent of Pakistan in jute. In proportion as she succeeds in these efforts the increase in the total supply of jute is bound to depress its prices in the international market, thus reducing the value of our surplus exports. Pakistan should concentrate upon the production of the best qualities of jute for which some of her districts are specially fitted. It may be possible to transfer some of the land producing inferior jute to the cultivation of rice, thus making East Bengal self sufficient in food. A policy of proper crop-planning therefore is indicated.

As regards tea, the industry is in the hands of Europeans and Hindus on whose stay in Pakistan we cannot rely. The production of tea will also have to be increased to give us more foreign exchange. As to hides and skins these should be improved in quality and used in the country for the production of high class leather goods.

The area under sugarcane in Pakistan is not adequate for our needs of sugar. We require not merely more sugar mills (which are practically non-existent at the moment) but also more sugarcane production either by proper crop-planning or by aiming at higher yield per acre.

We are seriously deficient in oil seeds which are necessary for feeding our cattle and also as basis for various vegetable oil industries.

Further, we must have more land under fruit gardening, forests and fodder for our cattle.

In a word, our land resources are not being properly utilized. We must have more production and achieve it in a planned manner.

Apart from crop-planning which will ensure propar proportions of the various kinds of products, production may be increased either by "extensive" or "intensive" methods of cultivation or both simultaneously. The possibility in these directions are discussed in the chapter that follows.

CHAPTER III

INCREASING AGRICULTURAL PRODUCTION

1. **Extensive *versus* Intensive farming.** The settlers in a new country bring under cultivation first those lands which they regard as most fertile or most convenient from the point of view of accessibility etc. As population and demand for agricultural produce increase lands that were regarded as inferior before, also become profitable to cultivate. In this way the cultivated area goes on expanding. A stage is reached when no more new area is available for extension of cultivation, or if available, the production obtained from such area is not adequate to pay for the cost of such production. The agriculturists then try to produce more by investing more capital and labour in the lands already under cultivation. In other words, they shift from the 'extensive' to the 'intensive' methods of increasing production. Sometimes the two methods proceed simultaneously. The additional produce required is partly produced by greater investments in the older areas and partly by bringing new areas under cultivation. Whether one or the other will be preferred will depend upon the relative costs involved. These costs may change with the development of scientific methods of farming the land

Thus even in an old country some lands may have been regarded as impossible or uneconomical to cultivate, but due to new technique or opportunities of dealing with them, the scope for extensive cultivation may appear. For instance, before the construction of canals in the colonial areas of Punjab and the Barrage commanded areas of Sind these lands were regarded as unfit for cultivation. With the new technique of digging canals and on account of the irrigation policy of the British Government what were hopeless deserts were converted into smiling fields and flourishing centres of population.

Similarly as regards intensive farming the old lands under the plough producing meagre crops may be made immensely more productive by the use of adequate and better manures, superior seeds, better crop rotation, better and deeper ploughing, more ample and regular water supply and greater attention to other processes of cultivation etc. Moreover, prevention of wastage through plant disease and other pests may increase the amount produced from these lands.

2. Scope of Extensive Cultivation in Pakistan. Now the question arises: Are there any lands in Pakistan which at the moment are lying uncultivated and which could profitably be brought under cultivation by the application of science or engineering? Such lands are known as "culturable waste" in agricultural statistics. This waste may be due to defective physical or chemical qualities of the soil. Thus the land may be too sandy, too stony, too dry, too uneven, too swampy etc. These are physical defects and can be removed, provided the cost is not prohibitive. On the other hand the land may contain an over-supply of certain chemicals or under-supply of certain other chemicals. This balance can also be adjusted provided the cost is not too great. By cost being prohibitive we do not necessarily mean that private enterprise does not think it profitable to invest the necessary capital for the reclamation of these lands. Private capital takes a very narrow view of 'profitability'. It expects returns during a comparatively short period and does not give adequate importance to the indirect advantages conferred on the community through such reclamation. Moreover, the capital investment involved may be so great that it may be beyond the financial capacity of private enterprise. In Italy, for instance, under Mussolini millions of acres of wheat lands were reclaimed by the action of the State. This could never have been done if this task was left to private enterprise. Even in Pakistan no private enterprise would have undertaken the construction of irrigation works of the type found in the Punjab and Sind.

Now as regards the answer to the question posed in the beginning of this section. The answer is that we do not definitely know what is the scope for extension of cultivation in Pakistan. Superficially speaking one would think that there is not much. The pressure of population in these areas has been very great and so has been the land hunger of the people. Under the pressure of war-time high prices and the Government's Grow-More-Food campaign every inch of land that could be profitably cultivated was brought under the plough. In fact profitability was not the only test. The Government spent huge sums to encourage greater production in every way. Even some of the fallow land was brought under cultivation and double cropping of land was extended considerably. With all these efforts in 1943-44 (the peak year of G. M. F. campaign) as compared with the average of six years ending 1941-42, only 3·5 million acres more were under the plough. This was an increase of 1·6 per cent.

War time efforts, however, were concerned primarily to meet an emergency. Under the Grow More food Compaign foot shortage caused by the war had to be met at a short notice. The methods followed were, therefore, improvised to produce quick results. When planning has to be done on long term basis measures, (e.g. construction of new and expensive irrigation works) can be taken which yield results after a long time.

The table given below shows how the land is being utilized in Pakistan :

Classification of area.	Million acres	Per cent. of Total.
Net sown ...	43	37
Current fallow ...	11	9
Total cultivated ...	54	46
of which irrigated ...	20	17
Forests ...	5	5
Culturable waste ...	26	23
Not available for cultivation ...	30	26
Total uncultivated ...	61	54
Total land ...	115	100
Percentage of irrigated to cultivated area ...	36	...
Percentage of cultivated to total area	46	...

How far are there any possibilities of bringing more area under crops? Let us take each of the uses to which land is put as shown in the table.

We may leave out area already sown and that classed as not available for cultivation. The latter is area under buildings, roads, or otherwise definitely known to be incapable of being brought under the plough. This leaves "current fallow", "forests area" and "culturable waste".

There is no question of reducing the area under forests and putting it under crops even if it was possible. As a matter of fact most of our forests are on the hills and converting those areas into crop area will not be an easy proposition. But even if this could be done easily it would be a bad policy. As we have already seen 5% of the total area under forests is already much below the necessary percentage for a country. Efforts should in fact be made to bring some of the " culturable waste" under forests It may be possible that for some of this land this may be the only possible use to which it may be put.

As regards " current fallow," this is not a specific area of land, it is the amount of land which in rotation is left without crops during a particular year in order to allow it to recuperate its productive powers through the action of the sun and the air. It forms a high proportion of the total cultivated area (*i.e.* about 20%). These 11 million acres of yearly 'waste' could be saved if other means of maintaining the fertility of the soil could be devised. And this should not be difficult in the modern world. It is all a matter of more water and manuring and more scientific ploughing.

As regards the item " culturable waste". It is very difficult to say how much of it is definitely known to be cultivable. Our classifications are not very scientific. In the official statistics of pre-division India this category of land was shown to be 93.8 million acres out of which " definitely known to be cultivable " was shown as only 8·65 million acres. Further out of 13·9 million acres of such land in the old Punjab, 3.18 million acres were shown as " definitely known to be cultivable". Out of the 11·1 million acres of cultivable waste in Sind no land was shown under the category of " definitely known etc."

It appears that the estimate of " definitely known as cultivable " was made very conservatively. The possibilities of extended irrigation facilities seem to have been ignored entirely. For instance it is estimated that the irrigation projects which are either already under construction or will be constructed during the next four years will irrigate 2·8 million acres in the Punjab and the same amount in Sind. Almost the whole of this area is land which has not been producing crops in the past. Much of the cultivable waste lies in the provinces of the Punjab and Sind and extension of irrigation facilities is bound to increase cultivable area in these provinces. Separate figures for East Pakistan are not available. For undivided Bengal 'uncultivated waste' was estimated at 6 million

acres. In that province the problem is not so much of irrigation as of draining the swampy lands.

What is really necessary is to have an all Pakistan survey of the soil and determine definility the area which can be brought under the plough by various measures. It appears there are considerable possibilities of extending cultivation in Pakistan provided the state pursues a policy of land reclamation under the general All-Pakistan plan of development. What is uneconomical to the private investor may be found to be an economic proposition when undertaken in national interest by the state. At the moment the lack of data makes all assessments of possibilities of extension of cultivation more or less a matter of speculation.

3. Scope for Intensive Cultivation.—Another method of increasing production is the use of more intensive methods *i.e.* deeper ploughing, more adequate manuring and watering etc. By such methods Japan has achieved remarkable results in productivity per acre.

At the moment the farmer in Pakistan is not exploiting the land to the best advantage. Consequently yield per acre in our country is among the lowest in the world as the following table[1] shows :—

Crops.		Yield in maunds per acre.					
		Pakistan	Japan.	Italy.	U.S S R.	U.S.A.	China.
Rice	...	11.40	33.40	50,20	17.40	22.20	23.00
Sugarcane	...	560.00	597.70	...	..	527.70	...
Wheat	...	6.00	16.00	13.20	17.60	...	9.90
Cotton	...	1.75	2.40	2.07	...	3.20	2.50
Barley	...	8.20	...	...	19.40	10 00	10.60
Maize	...	7 50	17.00	17.70	26 60	13.50	...

The case of Japan is very instructive for Pakistan. The conditions in that country are similar to those prevailing in Pakistan in many respects. It is a country of small cultivators who use very little of modern mechanical methods. The problem of irrigation, however, is not so difficult there as in Pakistan especially western Pakistan. In this respects Japan's conditions are more analogous to East Bengal. Japan, however, demons-

(1) Table quoted from K. A. Rahman (Director Agriculture Punjab) Economic Reconstruction of Pakistan with Special reference to Agriculture. Pakistan Economic Journal Vol. I No. 1.P. 9.

trates what can be done even with meagre resources, by a peasant on a small area of land. Per head cultivated area in Japan is only about one third of an acre as compared to Pakistan's ·6 acres. Even China produces more per acre. Italy is another ample where conditions are not much different from Pakistan. But these are all comparatively poor countries. The yield per acre is relatively high but the yield per man is low because of the inordinate pressure of population on land. The standard of living of a people depends not so much on production per acre as per man. In countries like U. S. A. Canada and Australia productivity per acre may not be as high as in Japan, Egypt and China, but since land per cultivator is large the standard of living of the rural classes is much higher. The ultimate goal, therefore, should be productivity per man. This would imply lowering the pressure of population on the soil in other words a well balanced economic development. This in our country means greater stress on the development of industries. So long, however, as the population depending on land remains what it is, intensive methods of cultivation should be employed as much as possible to get the most out of the land under cultivation. What needs to be stressed is that mere intensive farming is no sure way out of poverty. Intensive farming can co-exist with poverty of the rural masses as in Japan, Egypt and China. In fact mostly intensive cultivation is carried on only where landed area per head is small and the peasant has to take out his subsistence from it. To eradicate poverty, on the one hand more efficient methods of cultivation must be employed, and on the other, alternative employments must be created to absorb the surplus labour set free by the very use of these efficient methods.

4. **Methods of Intensive farming.**—If yield per acre is to be increased the land must receive adequate irrigation, and improved implements and heavy yielding varieties of seed must be used. Adequate manuring is another essential. More over the power used must be efficient and effective. And above all the quality of the human factor, the man behind the plough, also must be of a high standard of efficiency. We shall now investigate the position of these factors in Pakistan and the scope of improvement in each case.

5. **Irrigation Facilities.**—One of the greatest achievements of the British rule in India was the construction of artificial irrigational works. In Pakistan the provinces of the Punjab and Sind possess systems of canal irrigation which may be counted among the finest in the world. Where there are

no canals, well irrigation is practiced and new plans for supplying tube wells are also under completion. In East Pakistan there is plenty of water available. In fact the problem there is of drainage rather than of irrigation.

For the history of irrigation development in the Indo-Pak sub-continent the reader is referred to the Appendix to this chapter. Here we briefly describe the various irrigation projects now under construction in the various provinces of West Pakistan and the drainage schemes in hand in East Pakistan. These new works have significance for both extensive and intensive cultivation.

The most important irrigation scheme under construction in the Punjab is the Thal Project. This scheme was started before the partition of the province and was estimated to take about 10 years to complete. Now it is expected to be completed by 1951. When completed it will irrigate an area of about 18 lakh acres of hitherto barren land. Schemes for colonisation in this area are already under way. Ten lakhs of acres are proposed to be turned into co-operative farms.

The Lower Sind Project will irrigate about 15 lakhs acres of new land. It will cost Rs. 20 crores and will be completed in three years. Sind like the Punjab is a surplus province for food-grains. The completion of the new scheme will augment her food resources still further though the main product of the area will be superior American cotton.

In N.-W. F. P. the Warsak Hydro-electric project will help in irrigating about 70,000 acres of land in Peshawar and Noshera Tehsils. This acreage will be further increased by the Kheski Irrigation scheme irrigating about 13,000 more acres. As a result of these schemes N.-W.F.P. will became self-sufficient in foodgrains. The present annual deficit is about 50,000 tons.

A number of schemes are under consideration by the Government for Baluchistan. Among these are: Anambar River Irrigation Scheme in Dukki Tehsil, Loralai district. It aims at conserving the surface and sub-surface water flowing in the Anambar river by means of sub-surface weir and other irrigation works. It will increase the average cultivation of the area from 900 acres to over 8,000 acres. Another scheme is to construct sub-surface weir and irrigation works at a place about 10 miles from Gumbaz on the Narechi river. This will increase cultivation of the area from about 100 acres to over 3,000 acres. In addition there are smaller schemes for restoration of water supply from loss into the Shingle bed of the Kanchagal river in Zhob district. A dam will be built on the

river at a distance of 11 miles from Hindu Bagh. Another scheme will improve the Dukki watercourse by constructing aqueducts and lined channels. Further the Government proposes to dig wells, clean springs, improve Karez channels and build bounds to hold flood waters. The food deficit of Baluchistan at present is about 24,000 tons a year. These schemes aim at making the province self-sufficient in foodgrains.

Irrigation, Flood Control and Drainage Problems in East Bengal.—There is no paucity of water in East Bengal. Rainfall is plentiful, rather excessive in certain parts of the year. There are countless streams spread over the whole province. The main problem is flood control and prevention of erosion. Irrigation problem here is mixed up with soil conservation, drainage and navigation.

Floods have occurred with disastrous regularity in the districts of Chittagong, Tippera and Noakhali. Hitherto nothing has been done for their prevention and control. Long and short term measures are being planned now. There are three types of schemes in hand : (*a*) Development, (*b*) Grow-more-food and (*c*) Relief and Rehabilitation. There are six development schemes proposed with a total cost of about Rs. 6 lakhs. A Hydraulic Laboratory is to be set up at Dacca and a Hydrological Survey is to be carried out at a cost of Rs. 17½ lakhs. Data will be collected about slopes, inclines and water-levels during the various times of the year. This is to facilitate the development of irrigation, navigation and drainage. The Karnafulli flood control and Hydro-electric scheme has already been taken up. Its main benefit will be control of devrstating floods in the Chittagong and Tippera districts. Similarly Halda flood scheme has been included in the provincial plan. For conservancy of rivers, bandalling and dredging works have been undertaken.

6. **Dangers of Irrigation.**—Construction of large irrigation works have not proved an unmixed blessing. Water logging and salt effervescence in certain areas have led to deterioration of the soil and creation of unhealthy surroundings. In the Punjab in Pakistan (and Bombay in India) a good deal of land has become unfit, for cultivation due to this reason. And this process is going on. Every year in this province thousands of acres go out of cultivation. It has become quite a serious problem and is causing considerable anxiety to the government and the people. Water logging in the Punjab has been due to the rise in the water table, the effects of which appear in two forms,

(*i*) saturation of the soil locally known as *sem*; and in worst affected areas the appearance of water on the surface and the formation of jheels (*ii*) concentration of salt in the upper layers of the soil locally known as *Thur*. In 1932, 26,000 acres were affected by *sem* and 300,000 acres by *Thur*. By 1943 the figures respectively were 34,000 and 1.4 million.

The remedies usually suggesred for this phenomenon are: (*a*) pumping out of water by tube wells and other methods of drainage. (*b*) Proofing of canal beds by concrete. But this does affect the channels. (c) Opening out of closed and obstructed drainage. But this may involve the remaking of the whole canal. (*d*) Replacing canal irrigation by well irrigation. This would be very expensive, though the expense may be worthwhile where the danger is imminent (*e*) prevention of over-irrigation, by changing the system of supply to force the cultivator to economise water. The present system of supply leads to over-irrigation. This is estimated to be 30 to 50 percent in the case of wheat in the Punjab. Charge of water is made not according to the water used but according to crops watered. Moreover, the supply is uncertain and the cultivator naturally tries to irrigate as heavily as he can. The sale of water by volume has not been tried but it is held that it would make the cultivator economise water.

7 **Improved Implements and Power.** The use of better agricultural implements can also make our land more productive and lessén the physical strain on cattle and worker. The provincial departments of agriculture have devised various kinds of improved implements and have tried to populatise them among the peasantry. The chaff cutter has been most widely used. The furrow-turning plough, seed drills, interculture implements and cane crushing-machines have also been used to some extent. But in the words of the Director of Agriculture in the Punjab "these implements have not spread among the zimindars to the desired extent because of their low purchasing power.[1]" One could not expect their meagre pockets to afford expensive machines like reapers, threshers, tractors and bull dozers. These can only be used under some sort of cooperative system which we shall recommend at a later stage in this book.

More efficient power can be made available with the development of hydro-electric resources which we have already considered. At present man and cattle supply this power. We have already referred to the cattle and the necessity of im-

(1) Dr. K. A. Rahman op cit. P. 9.

proving its quality. About the man behind the plough we shall speak presently.

8 **Better Seed.** Another important method of increasing the yield is to popularise the use of improved varieties of seed. In this respect the Agricultural Departments have achieved good results. Improved varieties of wheat and cotton are said to produce from 15 to 20 percent. more per acre. The Coimbatore crosses of sugarcane produce more than double per acre compared to the indigenous strains.[1]

With all the efforts on the part of the Provincial Departments only a small proportion of the total area was sown with improved seed in pre partition India. The percentage however varied according to crops. The highest was sugarcane where it was 76%, followed by jute 62·5%, cotton 35·5%, wheat 24.9% and rice only 5%. The over all percentage for British India was 10 and for all India 8.1.

The percentage of area under improved seed in Pakistan is much higher than it is in the territories now in India. In East Pakistan the percentage of area under better varieties of rice is small but that under jute is very high as noted above. In West Pakistan its two chief crops Wheat and Cotton are mainly produced with the help of better varieties. Separate figures for the Punjab are very encouraging in this respect. In the province out of the total area of 65, 77, 600 acres under wheat 51, 29, 519 acres (or 77·9%) were sown with improved varieties of seed in 1947-48. In the case of cotton 17, 19, 388 acres out of 18, 05, 300 acres were under improved varieties. This comes to over 95%.

Here, however, a note of caution is necessary because much of this improved seed is not of pure quality. "As the provincial governments supply a very small fraction of improved seed every year purity cannot be maintained in the field. The seed produced at the Government Farms under scientific management can only be said to be pure and that source is only 5% to 10% of the total seed distributed. The seed procured from private sources for sale is seldom comparable with the former.[2]" Arrangements should be made for the supply of pure seed to the cultivator by the Government Departments, preferably through the co-operative societies as suggested later.

(1) Dr. K. A. Rahman op. cit P. 11.

(2) Ibid P. 10.

9. **Adequate Manuring.** After good seed and adequate irrigation propet supply of manure is very necessary for increasing yield. The general complaint is well known that the cultivatot in Pakistan burns as fuel cow dung which is the best source of farm-yard manure. This cannot be helped as loog as fuel supply in the country is inadequate. Even then much of the fatm-yard manure that goes waste through ignorance can be made available for the soil. The urine of cattle for instance, is allowed to go waste without any attempt at its collection. Much of the cow dung can be saved from being burnt if proper use as fuel were made of dry stubble and other sweepings More over planting of trees on canal banks, roads, village commons, and on boundaries of fields can considerably increase the supply of fuel Mr Brayne, of the Rural Uplift fame, did considerable work in the Punjab in connection with popularisation of the methods of manure preservation through digging of pits His work however, was soon forgotten by the people. Persistent propaganda for this purpose is necessary. The co-operative agency can again help here and so can the village school.

The Royal Commission on Agricultute recommended several other methods of increasing the supply of manure. Among these are composts, night soil, growing of legumenous crops, use of oil cakes and fish, rice-husk-ash etc., as fertilizers. Moreover, chemical manures can be produced and made available to the peasant at reasonable rates

Compost is obtained by causing decomposition of all sorts of waste materials, sweepings, leaves and other vegetable matter In China vast quantities of composts are manufactured from the waste of cattle, horses, pigs and poultry combined with herbage, straw and other similar waste[1] Experiments in preparing compost were made in certain Provinces of pre-partition India including Bengal, by the Agricultural Departments. Such experiments should be pursued by the Pakistan Provincial
methods devised to make the results

rejudice against the use of night soil
This can be broken if the night soil is converted into poudrette'. The method of converting night soil into poudrette—in which form it is much less abnoxious to use—proved quite successful at Nasik in India. These should be tried in Pakistan Co-operation between the Agricul-

(1) Repott Royal Commission on Agriculture P 58

tural Department and municipal authorities can produce profitable results. The sewage process of making the night soil into less abnoxious manure is recommended for towns where there is a regular sewage system.

The agriculturist in Pakistan knows the value of legumenous crops which improve the soil e.g., gram. The Agricultural Departments should discover new varieties of such crops and popularise them. As regards green manure experiments have discovered that *Sann* hemp on the whole gives the best results. But the trouble is that when grown, it exhausts so much of the moisture in the soil that enough is not left to decompose it when it is ploughed in.

As regards the chemical manures their use in Pakistan so far has been negligible. In the Punjab, for instance, consumption of artificial fertilizers (sulphate of Ammonia and super sulphate) is only 0·32 lbs. per acre. Compare this with 350 lbs in Japan, 135·4 lbs in U. K. and 232·8 lbs per acre in Belgium. Their price is beyond the pocket of the average cultivator. The government of Pakistan is contemplating the establishment of an ammonium sulphate plant in the Punjab. It will produce bout 1 lakh tons of ammonium Sulphate a year for supplying ertilizers for agriculture. Experts were invited from U. K. U. S. A. and Belgium to advise in this matter and their reports are under consideration of the government.

10. **Protection of Plants.** Yield can be increased also by saving the loss caused to plants through the ravages of pests and diseases which is of enormous dimensions.

The damage done to crops in the Punjab (Pakistan) alone has been estimated at over Rs. 8½ crores, on the basis of the crops of the year 1945-46. Thus :-

Crops	Per cent damage done by insects.	Value of loss in Rs. lakhs.
Cotton American.	15%	470·39
Cotton Desi.	10%	
Sugar Cane.	5%	68·84
Food grains.	0·5 to 10%	140·41
Fodder Crops.	2%	151·10
Oil Seeds.	1%	5·00
Vegetable & chillies.	0·01% to 10%	8·40
Fruits.	2·5% to 10%	10 17
Total.		

If to this is added the damage done to food grains in storage the loss per annum comes to Rs. 11·56 crores.[1]

The Pakistan government has organised a Plant Protection Service for the protection of plants from pests and diseases. More of this later.

11. The Man Behind the Plough. Finally, we come to the agriculturist[2] himself—the man behind the plough. What is his personal equipment—physical, mental and moral to contribute to productivity Seemingly contradictory views have been expressed by authorities in this connection. Dr. Voelker in his able report on the agricultural practice in India admired "the careful husbandry combined with hard labour, perseverance and fertility of resources of the Indian agricul-

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the other hand, Calvert quotes an Irish writer: "The wealth

its command,

of its people;

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prosperous; with them, no unfavourable circumstance can long prove an insuperable obstacle[4]" The implication is that people of the Punjab (or Pakistan) are poor because they lack these qualities (and not because of any physical obstructions). Mr. Keatinge recognizes that the cultivator "may be strong, industrious and intelligent," but adds that "If he is to do good work he must be prompted by an adequate incentive and sustained by adequate food."

moral development which would be regarded as minimum in

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(1) Table quoted from Dr K A Rahman op cit p 12

(2) For distribution between the absentee landlord, peasant farmer, tenant cultivator and agricultural labourer and their significance from the point of view of agricultural productivity, see Chapter V.

(3) Report p. 14

(4) Calvert wealth and welfare in the Punjab p 47.

a more advanced country. The causes of this backwardness are partly historical and political, partly social and partly climatic. Each set of causes is inextricably mingled with the others. The emphasis laid on a particular cause or causes is determined mostly by the political creed of the writer concerned. For instance, the nationalist in British days tended to over-emphasize the political factor. The apologist of the British administration, on the other hand, put the whole blame either on the pre-British administrations or on the social and climatic factors. Confusion arose from the fact that there was a substantial element of truth in each of these views. The scientific inquirer must try to be as objective as possible and give due weight to each of the factors of the situation. This is easy now that the country is free.

Whatever the causes that have brought about the present state of affairs, no one, however, can deny the facts as they are. There is no denying of the fact that the Pakistani cultivator is inferior in physical health and energy to his counterpart, for instance, in Great Britain and America, even in the European countries. He is subject to a host of endemic and epidemic diseases. Our villages are ravaged by major diseases like malaria, plague, cholera, dysentry, tuberculosis etc. These diseases not only cause high rate of mortality, with all its wasteful consequences, but undermine the physical efficiency of those who survive the attack. People chronically subject to disease, moreover, become lethargic, listless and apathetic. The solution of this problem implies both preventive and curative measures. The Public Health and the Medical Departments of the Government are doing some work in this connection; but most of their benefits are showered upon the urban areas. In view of their numbers and the contributions they make to the revenues of the state, the rural masses receive insignificant help. A large scale publicity campaign is necessary to awaken the people to the importance of public health measures.

In the second place, the chronic illiteracy of the rural masses can hardly be denied. When the literacy in the country is only 8 per cent and literate persons are mostly concentrated in towns, the share of the literates falling to the villages can be easily imagined. Add to this the fact that our educated classes are the product of a universally condemned system of education, which does not produce practical men of the world. As regards rgricultural education, after half a century of effort, how many practical farmers have been produced by our agricultural colleges? Practically none. A radical change in our system of education is

immediately called for, so that it should produce practical and enlightened men of the world. From the point of view of agricultural progress we require peasants with a good minimum of general education and also technical education and training to make good farmers. But such farmers cannot be content with the tiny holdings that are available for them in the villag [illegible] more attractive and [illegible] le there. This show [illegible] and social life requires a simultaneous reform if not a radical overhauling.

With better physical health and education of the right kind, the whole outlook of the villager will change At present he is condemned as ignorant, superstitious, fatalistic, improvident and extravagant. It is said that he lacks initiative and tends to stick to the old ways of life and work, that he has no desire to improve his standard of living If he gets larger income due to some chance, he reacts by being extravagant in expenditure on social ceremonies or on litigation These accusations are true, though not always without qualification. But all defects are curable by persuasion, propaganda and education on the right lines. Some work has been done by the various Government Departments, Agricultural, Co operative, and Rural Reconstruction. But a well-planned, comprehensive and nation-wide effort is necessary to bring any substantial and permanent results.

12. **Conclusion.** After studying the various possibilities of increasing production through the extensive and intensive methods we come to the conclusion that there is considerable scope for both these methods in Pakistan Large areas can be brought under the plough mainly through the extension of irrigational facilities Yield per acre can be increased by using better seed, more adequate manure, better implements etc. Better education and training of the cultivator himself can also increase his efficiency as a worker. Two more factors, however, need to be considered. One is the unit of cultivation. Unless the farm is large enough to give proper scope to these various agents to operate to the best advantage, productive resources will not be used in the most effective manner. The second is the relationship of the cultivator to the land he cultivates This is also of great significance, because on it depends to a large degree the incentive that will bring out his best qualities as a worker, qualities of industry economy and forethought.

In the next chapter, we shall consider the present position regarding the unit of cultivation. In the chapter following it, we shall discuss the relationship of the cultivator to the land he cultivates. After assessing the present position in these two respects we shall investigate the possibilities of changing the present state of affairs, with a view to bringing about conditions which should open up new avenues of agricultural development in Pakistan. Our aim is to bring together the agriculturist, his equipment and land under such conditions of co-operation and co-ordination as would increase production and improve the general living standards in rural areas.

APPENDIX TO CHAPTER III

Irrigation Development and Policy of the Government in Indo-Pakistan.

The policy of the Government with regard to irrigation has passed through many stages.

The first efforts of the British Engineers under the E. I. C. were directed towards the improvement of the old existing indigenous works. Such were the Western Jumna Canal, the Eastern Jumna Canal, the Ganges Canal and Irrigation Works at the delta of the Cauvery and Kishna rivers. In the Punjab the Upper Bari Doab replaced the Old Hasli Canal which had carried water to Lahore and Amritsar in olden days. In the Punjab and Sind some old inundation works were improved, e.g., Begari Canal and Fulelı Canal.

The second stage was of canal construction through private companies. The first company, the East India Irrigation and Canal Company was formed in 1858 to construct canals in Orissa. Work was started in 1863 but by 1866 the whole of the capital of the company had been spent and in 1868 the Government took over the work paying expenses to the company to date. Orissa canals were eventually completed, similarly was completed the Sone Canal in Bihar which was a part of the company's original scheme. Another company was known as the Madras Irrigation Company, formed in 1863. This also proved a failure, and the Government was compelled to buy out the company after it had only completed one section of a vast scheme of Sir Arthur Cotton of utilizing the waters of the Tangbhadra and Pennar rivers.

The third stage was the construction of productive irrigation works by the Government through funds raised by loans. This led to the construction of five irrigation works of great magnitude, *viz.*, the Sirhind Canal in the Punjab, the Lower Ganges and Agra Canals in the United Provinces, the Lower Swat Canal in the North-West Frontier Province. This was during the last 20 years of the 19th century.

(*d*) The next stage was the construction of colonization canals in the Punjab. In 1880, greater portion of the Punjab consisted of arid waste with a rainfall which varied from 5 to 15 inches per annum, and this desert area was scarsely populated by

nomad tribes of camel and sheep graziers. In order to open up some of these waste tracts, and at the same time to relieve the pressure on land in highly populated areas elsewhere, Government took over these unclaimed lands as crown waste and embarked on a scheme of colonization. The country was surveyed and was divided into squares of land subsequently standardized at 25 acres each and on this land were settled members of the various agricultural tribes from the old districts. Eighty per cent of the land was given to small peasant proprietors in lots of from 1 to 2 squares each. Soon, new and improved villages and populous towns like Lyallpur grew up and the desert was turned within a few decades into smiling fields of wheat, cotton and sugarcane.

The first colony canals were the Sohag taken out of the Sutlej below Ferozepore, and the Sidhnai in Multan district. The former was later absorbed into the Sutlej Valley Canals. These were followed by the Lower Chanab Canal which created the Lyallpur Colony. It is one of the largest and most successful and remunerative canals in India and irrigates 2½ million acres annually.

The next stage was the construction of Famine Protective Works. After the great famine of 1877-78, it was decided to set apart a sum of Rs. 150 lakhs known as the Famine Relief Insurance Fund. Part of this was to be utilized for famine relief when necessity arose and one-half was allotted for the construction of railways and canals. Later, the whole amount was available for irrigation works. The idea was to construct works in order to protect the country from famines. Under this scheme the Betwa Canal was constructed in the Central Provinces with two storage reservoirs. Moreover, Rushikulya project was undertaken in Madras and several important storage schemes were inaugurated in Bombay, Deccan, *e.g.*, Nira and Periyar Canal systems fed by lakes held by massive masonry dams. Furthermore, in Sind, two important works were undertaken, the Jamrao and Western Nara Canals taken from the left bank of the Indus at Rohri.

Indian Irrigation Commission, 1901-03. The appointment of this commission was the result of the success of productive and protective works undertaken during the second half of the 19th century. The Commission reported in 1903 and laid down a definite policy regarding " the selection, financing and mainte-

nance of canal works." As a result a large number of new works were undertaken between 1905 and the outbreak of the Great War in 1914. The most important of these was the Triple Canal Project in the Punjab which linked up the Jhelum, Upper Chenab and Ravi rivers and led to the construction of the Upper Jhelum, Upper Chenab and Lower Bari Doab Canals. During this period, work on Lower Jhelum Canal (started in 1897) was also completed. Most of the other works constructed following the recommendations of the Irrigatiun Commission, were famine protective works, in the hilly rracts of the Central Provinces, Bombay, Deccan and Bundelkand. In 1914, the Upper Swat Canal was opened in the N. W. F. Province. Another canal completed during this period was Triveni Canal in Bihar.

Post-War (1914-18) Developments After the inauguration of the Reforms of 1919, irrigation became a (Reserved) Provincial Subject. The provincial governments now possesed much larger initiative in the construction of canals. They had to obtain the sanction of the Government of India and of the Secretary of State only if the estimated cost was more than Rs. 50 lakhs. Loans could be taken not only for productive works but also for other works. Money could also be utilized from the Provincial Famine Insurance Grant when it was not required for famine relief.

Due to the post-war period of prosperity many new irrigation schemes were launched. Several important works had already been completed. Three of them deserve special mention: (*i*) The Sutlej Valley works in the Punjab, completed in 1932-33 were estimated to irrigate an area of 5 million acres. Their total cost up to the year of complerion was Rs. 33·31 crores. (*ii*) The Sukkur Barrage and canals in Sind opened in 1932 were estimated to irrigate 5½ million acres. The cost of these was Rs. 24 crores. (*iii*) The Sarda River irrigation scheme irrigates part of Rohilkhand and Oudh in the United Provinces of India. This was opened in 1928 and was estimated to irrigate a million acres. Another work completed was Cauvery Mattur Project in Madras, wich was to irrigate 300,000 acres The Nira Right Bank Canal Scheme with which was connected the Lloyd Dam is one of the biggest of its kind. The Damodar Canal in Bengal was opened just before partition. In Northern India there was the Haveli Canal to utilize spare water in the Chenab river below its junction with Jhelum, was to command 1½ million acres. The Thal Project was proposed but was postponed for financial reasons which was resumed after partition.

CHAPTER IV

UNIT OF CULTIVATION

1. Introduction. The size of the unit of cultivation is of utmost importance for efficient agriculture. Otherwise, good soil, superior seed, efficient implements and cattle, adequate manure and irrigation facilities, do not yield their maximum returns. By unit of cultivation we mean the size of the *compact* plot on which agricultural operations are carried. Area held by a person may be looked at from three points of view; (*i*) The size of the area owned or the size of the proprietary holding. (*ii*) The size of the area cultivated or the size of the cultivator's holding. (*iii*) The size of the *unit* of cultivation *i.e.*, whether (*ii*) is found in one block. It is the size of the unit of cultivation which determines, other things being equal, with what efficiency the land area can be exploited. To yield best results the cultivator's holding should be of an economic size and should be in a consolidated form.

2. Economic Holding. What is an economic holding? It is not easy to give a satisfactory answer to this question. The size of a holding which would be called 'economic' will vary with a large number of circumstances. For instance, it will depend upon:—

(*a*) The methods of production used. With mechanical methods of agriculture such a size may be 200 acres or more. With primitive methods, as they prevail in Pakistan, even a holding of 50 acres may be too large to be economic. On the other hand, a holding of only 5 or even 10 acres may be too small to be economical even with antiquated methods of cultivation. (*b*) The kind of agricultural production is also important. For the production of wool and wheat, for instance, the size has to be larger than for the production of vegetables and fruit. (*c*) The productivity of the soil is another factor to be considered. When the soil is good a small area may be adequate to support a family in comfort. When the soil is inferior or lacks irrigational facilities a larger area may be necessary. A Japanese farmer can live comfortably on two or three acres, while in Pakistan a larger holding is necessary. In Pakistan itself the necessary size will vary in different parts. Even in the same province or in the same district economic holding may mean a different thing in different

places. Five or six acres in the Gujranwala district may support a family while 10 or 12 acres may be necessary in Rawalpindi district. (d) If the holding is found in one consolidated block it may be economic while the same area if found fragmented in different places may be uneconomic to cultivate. (e) Whether the cultivator is himself the owner of the land he cultivates or he is a tenant is also of importance. An owner cultivator by hard labour may get higher returns from a small area than a tenant would do from a larger area or an area of the same size. (*f*) The way agricultural ooerations are organised is also significant. For instance, if farming is carried on co-operatively by a number of families, a large size of holding will produce best results, while if it is carried on individually a small size may be good enough. This is partly because under co-operative farming more scientific and mechanical methods can be applied.

But if the size of the family and the character of their equipment is already given, the size of the holding which should be called economic will be such as would give them a reasonably decent standard of living, using their equipment and labour to the best advantage. Such a holding will naturally vary in diffetent parts of Pakistan and cannot be standardised in terms of acres. Character of the soil, rainfall facilities for irrigation etc. will have to be taken into account. In the Punjab from 10 to 12 acres may be regarded as an economic holding, though we cannot be rigid about this matter.

3. The Size of Proprietary Holding in Pakistan. From the point of view of agriculture in Pakistan the size of an owner's holding is important because of two reasons: (*i*) When the owner is himself the cultivator a small ownership holding means a small unit of cultivation, unless he increases the size of his cultivation by renting land from other owners. In the later case he becomes partly a tenant and all the objections against tenancy farming apply to him. (*ii*) When the ownership holding is very large we get, the phenomenon of landlordism which in Pakistan is almost synonymous with absentee landlordism. Thus too large and too small a size of proprietary holdings are both signs of uneconomic exploitation of our land resources. One means resourceless peasant proprietors the other exploited tenants with absentee landlords.

Consolidated statistics for the whole of Pakistan are not available, but some idea of the size of ownerships can be had from scattered material collected from time to time. According

to the Punjab Land Revenue Committee (1938) 20% of the proprietors in the Province hold less than one acre of land. "Consequently," they added, "many of the small proprietors who havh insufficient land for the maintenance of their families are compelled to cultivate land of the larger proprietors and pay them half the crops."

The following table shows the land distribution in the Punjab at two different dates :—

Land Distribution in the Punjab.[1]

Owners' holding		% of total No. of owners		% of total cultivated area	
		1924	1939	1924	1939
Below 5 acres	...	58.7	63.7	12.0	12.2
5 to 15 acres	...	26.2	24.2	26,6	22.2
15 to 50 acres	...	11.8	9.7	35.6	27.6
Over 50 acres	...	3.3	2.4	25.8	38.0

If we assume that the size of the economic holding is from 5 to 15 acres, then those owning below five acres are either cultivating uneconomic holdings or they are partly tenants of other holders or they are absentee landlords and must have other sources of livelihood than cultivating land. At the other end those having 50 acres or more can live without cultivating their full holding. Most of their land must be rented to tenants. As regards those holding from 15 to 50 acres it is unlikely that the whole of their land is being cultivated by them. We may assume that half of their land is given on rent.

The above table may thus be modified as under.

		% of total owners		% of total area	
		1924	1939	1924	1939
Part tenant farming or uneconomic farming	...	58.7	63.7	12.0	12.2
Peasant Proprietor with economic Holdings	...	32.1	29.5	44.4	36.0
Wholly tenant farming and absentee landlords	...	9.2	7.	43.6	51.8

The above table suggests the following conclusions :—

(*a*) In 1939 about 65% of the total land in the Punjab was being cultivated by tenants. The proportion in the present Punjab must be more because most of the large estates fell on this side

(1) Based on "*Size and Distribution of Agricultural Holdings in the British Punjab 1924*" add "Agricultural Holdings in the British Punjab—Their Size and Distribution." 1939.

of the border in district like Dera Ghazi Khan, Muzaffargarh, Mulan, Jhang, Sargodha and Mianwali. Settlement of refugees or non-Muslim evacuees land does not change the situation because they have been settled as tenants and not as proprietors.

(b) Only about one-third of the holdings in 1939 were of economic size, cultivated by owners themselves.

(c) Over a period of fifteen years from 1924 to 1939 while the percentage of area under economic holdings of peasant proprietors decreased from 44·4 to 36, the percentage of area cultivated by tenants of large absentee landholders increased from 43 6 per cent. to 51·8 per cent. At the same time the percentage of absentee landlords decreased from about 9% to 7%

(d) While the percentage of peasant proprietors cultivating economic holdings decreased from about 32 to 29 those cultivating uneconomic holdings increased from about 58 7% to 63.7%.

On the whole the tendency has been towards concentration of land in the hands of absentee landlords and consequent growth of tenancy cultivation on the one hand and further splitting up of economic holdings into uneconomic holdings on the other. That land has been passing from the hands of small owners into the hands of large owners is also borne out by the fact that between 1924 and 1939 the number of owners fell from 35 lakhs to 34.8 lakhs—a fall of 20,000, who must have become either mere tenants or landless labourers. During the period 1939—1942 the land to the extent of 6.21 lakhs was bought and sold among the 'agriculturists' as defined by the Land Alienation Act, which means that the process of expropriation of small holders by larger landlords has continued all along. This tendency is further substantiated by the fact that according to the census reports the number of tenants in the Punjab increased from 6,26,000 in 1911 to 10,08,000 in 1921. Thus we are faced with growing uneconomic holdings on the one hand and absentee landlordism with tenancy farming on the other. Conditions in other provinces of Pakistan are, if anything much worse, because the Punjab has always been regarded as the home of peasant proprietors and agriculturally among the most prosperous provinces of the sub-continent of India.

In Sind about 80% of the area is cultivated by tenants called Haris[1] who have no rights in land. The owners are absentee landlords. The distribution of land has been stated thus by one writer[2] basing his figures on the Sind Administration Report for 1936-37.

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(1) Appendix II, Bengal Famine Committee Report, Part II p. 492.

[2] Nabi Bux Uqaili [of State Bank of Pakistan] Agricultural Finance in Sind, "Pakistan Economic Journal" Oct., 1949.

Average holding[1]

3 acres.	30·2%	of zamindaris owing	1·62%	of total land
10 acres.	30·2%	Do.	5·42%	Do.
20 acres.	14·29%	Do.	5·18%	Do.
50 acres.	17·96%	Do.	16·19%	Do.
300 acres.	4·49%	Do.	23·33%	Do.
1000 acres.	2·86%	Do.	48·26%	Do.
	100=2,44,891		100=52,94,000 acres.	

Total population=45,35,000

Thus about half of the cultivated area is owned by only three per cent. of the owners, who own 1000 acres and more each. About 72% of the area is owned by 7 per cent. of the owners who own 300 acres or more each. These must surely be absentee landlords.

At the other end over 60 per cent. of the owners own only 7% of the total area. Most of these are uneconomic holdings and must be cultivated by farmers who are at least partly tenants. If half of the owners of 50 acres average are peasant proprietors then about 20 per cent. of the area is being cultivated by peasant proprietors who are about 83% of the total owners. This is in accord with the figure given to the Bengal Famine Commission that 80% of the total area is cultivated by tenants.

The conclusion is the same as in the Punjab. The land is being uneconomically exploited either because of uneconomic peasant holdings or because of tenancy framing with absentee landlordism.

It should be particularly noted that large landed estates cultivated by tenants in Pakistan do not imply large-scale farming Even where ownerships are large they are distributed among tenant families in small parcels which are hardly of economic size. Thus we get the disadvantages both of uneconomic scale of production and of tenancy farming.

The same conclusions apply to other parts of Pakistan. N.W.F.P. is a landlord ridden province. Out of the total cultivated area of 25,25,713 acres about 47% (11,88,560 acres is) cultivated by tenants-at-will *i.e.* is held by large owners about 11% (2,78,650) is held by occupancy tenants and the remaining 42% (10,48,523 acres) are held by peasant proprietors.

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(1) These averages are assumed on the basis of classification of ownerships in relation to area held,

East Bengal is proverbially a land of "Zamindaris" with considerable tenancy farming and uneconomic holdings with the additional complication of a system of permanent land revenue settlement. The province is committed to the abolition of the Zamindaris and the law for this reform has already been passed by the Provincial Assembly. But how long will it take to implement the law and at what price is another question. For the time being the system is there and is a serious hinderance, to the prosperity of our agriculture.

4 The Size of Cultivation. We have already observed that even where ownership units are large they are cultivated in small parcels by tenants. Our cultivators are resourceless whether they are small owners or mere tenants. There are no large capitalists as in England who take large parcels of land on rent and cultivate them on commercial basis with modern mechanical equipment and scientific methods. Agriculture in Pakistan as in India and China, is not a business, it is a means of livelihood for people who have no alternative means of employment. The pressure of population has thus resulted in the land being parcelled out in small cultivators' holdings which in the majority of cases are less than the economic size.

In the Punjab twenty-five years ago, Calvert found that (*i*) 22 per cent. of cultivators cultivated one acre or less each; (*ii*) a further 33 per cent, cultivated 1 to 5 acres each, (*iii*) a further 31 9, per cent. cultivated 5 to 15 acres each and only 1 per cent cultivated over 50 acres each.

Mr. Calvert concluded his enquiry in the following words: "There appears to be 500,000 ownerless cultivators, a real tenant class, the number with one acre or less is disconcertingly great. Numerous small owners in the 1 to 5 acres group have managed to get enough land on rent to take *them out of this group into one higher up, once the 15 acres* holding is passed the number dwindles sharply. The size of a holding considered cultivable by one yoke of oxen is about 15 acres. That very many have failed to increase their holding to this size, so that there is a real demand for land on rent, a fact which accounts for the high rents and the ability of the landlord to exact a fifty per cent share instead of a reasonable cash rent[1]."

The Royal Commission on Agriculture found that in the Punjab 76 3% of the cultivators cultivated less than 10 acres each and 55 2% cultivated less than five acres each. In other

(1) Calvert Wealth and Welfare in the Punjab, p. 176

words only one quarter of the cultivators cultivated economic holdings. The size of the cultivator's holding today must be much smaller not only due to increase of population during the last two decades but also because of the great influx of peasant refugees from India.

In Bengal the size of the cultivator's holding is still smaller. About half[1] the holdings according to the Royal Commission on Agriculture are barely sufficient for the maintenance of the farmers cultivating them. Special inquiries show that in this province before division 42 per cent. of the farmer's families have holdings below 2 acres[2] each while another 21% have areas between 2 to 4 acres each. No wonder the Bengal Land Revenue Commission remarked about the agricultural problem of this province thus ; "It is the most difficult problem we have to face because it is virtually impossible under present conditions to suggest any remedy."[3] The number of acres per cultivator in Bengal according to the Census Report of 1921 was 3·9, as against 8·8 in the Punjab.

We have no statistics relating to the size of cultivation in other provinces of Pakistan. The conditions cannot be different. The land in N.W.F.P. is owned by large 'sardars' and 'jagirdars' and cultivated by tenants more or less like those in Sind and the Punjab. Baluchistan is essentially a feudal territory. The average ownership in Sind is large, but since the owners are only 5·4% of the total population and seventy-five per cent. of the people depend on agriculture in villages, the land must be parcelled out in small holdings for cultivation by tenants.

5. **Effect of Immigration of Refugees on the Size of Cultivation.** A recent study has been made to show how the post-partition influx of refugees has affected our agricultural workers and their wages. Three villages of the Lyallpur district were chosen for the inquiry.

i.e. (*i*) Not affected by Partition.
(*ii*) Partly affected by Partition.
(*iii*) Wholly affected by Partition.

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(1) Royal Commission Report, p. 133.
(2) Bengal Land Revenue Commission Report Vol. I, pp. 85, 86.
(3) Ibid.

The following table[1] is relevant to the subject of our discussion. It shows how the coming of refugees has affected the size of the holding and pressure on land.

Category of Villages.	Total Population.	Total Cultivated area (acres)	No. of holdings.	Average size of holding (acres)	Density per acre.	% of population unemployed.	Agricultural income per head.	Gross income per acre
							Rs a. p.	Rs. a. p.
Unaffected ...	869	695	55	20·4	0·93	55	138 8 3	131 1 9
Partly affected ...	514	389	59	8·5	1·2	62·9	119 12 8	147 10 0
Wholly affected	758	500	86	6·8	1·3	65·7	113 15 3	147 14 5
Total ...	2141	1584	180	11·9	1·15	61·2	124 1 3	142 3 5

It will be seen that the unaffected village has the largest size of holding, smallest density per acre, lowest unemployment ratio, highest income per head but lowest income per acre. The last is probably due to the smaller intensity with which the land was cultivated due to less pressure on it. The wholly affected villages have exactly the opposite characteristics to show and the partly affected lie in between. These conclusions can be safely generalised to apply to other parts of Pakistan where refugees have concentrated themselves.

6. *Fragmentation of Holdings.* The problem of holdings, however, does not finish at their small size. If the whole of the area cultivated by a peasant proprietor or a tenant farmer was found in a consolidated form at one place, he might be able to make a good use of the land and other resources. But this is not the case. The holdings are not only small but in many areas of Pakistan they are also fragmented. The total holding is made up of tiny plots scattered all over the village

(1) Problem of Rural Labour and Wages in the West Punjab by Dr. Ali Asghar Khan, Assistant Professor, Agricultural Economics, Agricultural College Lyallpur.
See Pakistan Economics Journal July 1949. Tables p 48-94.

area intermixed with other plots belonging to different cultivators. In the Punjab colony districts and in parts of Sind, the evil of fragmentation is not a problem. In certain areas, howevet, it is quite serious especially in the Punjab. For instance, in the Attock district "in many villages with an area less than a square mile the Zamindar has to go on an average of two miles to his field as against three furlongs or less, which would be the distance if the village had been laid out more scientifically."[1] Similar conditions prevail in other parts of Pakistan except where fields have been planned out before colonization or opening up of the areas for canal irrigation.

Fragmentation is mainly caused by the growth of population and law of inheritance which requires division of property equally among all the sons of the deceased, each claiming a bit of land, decay of handicrafts pushing people on to land; attachment of the people to landed property so that they stick to their share even when they migrate to towns; agricultural indebtedness leading to sale of pieces, etc.

Small holdings are uneconomic to cultivate but fragmented holdings are more so. The already poor equipment of the cultivator is wastefully utilized; scientific cultivation becomes impossible, like digging of wells, employment of labour-saving devices, introduction of more valuable crops; cost of protecting the crops, if protection is at all possible, is higher; much area is wasted in hedges and paths and much time is consumed in moving from plot to plot.

6. Remedies: Prevention of Sub-Division. For small holdings the remedies usually proposed are creation of economic holdings and making them indivisible through registration. There are many practical difficulties in the application of these remedies. It will be difficult to change the laws of inheritance which have religious sanction behind them. Moreover the size of the economic holdings varies from plaee to place and it will be difficult to standardise their size. Egypt has passed what are known as the Five Fedden Laws to check subdivision beyond the size of an economic holding. "Although the land is nominally divided amongst the heirs, it is actually left in the hands of one to cultivate on behalf of the whole number or may be handed to trustees to manage for

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(1) Quoted by Nanavati and Anjaria: Indian Rural Problem, p. 30.

all."[1] Mr Keatings suggested giving to the right holders in an economic holding power to register it as such in the name of one right holder, after which the holding became impartible and not liable to further subdivision. In fact a Bill was drafted in Madras which was to be a permissive measure, to put this scheme into effect A similar Bill was introduced in the Bombay Legislature but could not be passed The main criticism of such measures has been that they go against the religious sentiments and laws of the people and further that they would create a landless class, reduce agriculturists' credit and would create complications in revenue records. Moreover, the difficulty of defining an economic holding was also pointed out. It would be intresting to know with what success the system has worked in Egypt In the Punjab Canal Colonies the policy has not entirely prevented subdivision of cultivation as the Royal Agricultural Commission found. It has, however, prevented subdivision of proprietory holdings

The evil of fragmentation, however, can be met much more easily even though there are difficulties of people's intertia born of prejudice

7 Consolidation of Holdings "The only measure that appears to promise relief," wrote the Royal Commission on Agriculture twenty two years ago, "from the evils that arise from fragmentation of right holders holdings' is the process which is generally known as the consolidation of holdings, though it is in reality the substitution—by exchange of land—of a compact block for a number of scattered fragments By this process, all the land of one holder may be formed into one plot only, or in a few plots of different kinds of soil."[1]

The work of consolidation was started first in the Punjab as far back as 1920 21. By July, 1937, 791,358 acres had been consolidated out of the total cultivated area of 30,000,000 acres. By October 1941, the total area consolidated amounte to 1,300,000 acres. About 5,000 000 acres were consolidated in four years At this rate it would take 24 years to consolidated the whole area of the old province. Originally the work was done on voluntary basis therefore the progress was still slowerie 800,000 in 16 years A Consolidation of Holdings Act was passed in 1936 which accelerated the process The Act enables

(1) Report of Royal Commission on Agriculture (1928) p 138

two or more landowners to apply for consolidation to an officer appointed by the Government. Consolidation, however, is only undertaken if two-thirds of the landowners owning not less than three-fourths of the cultivated area agree to do so. The Act has been extended to Sialkot, Gujrat, Jhelum, Muzaffargarh and Mianwali districts of the Punjab. The Government actually participates in the work and bears the cost of staff required for the purpose. Even now a reluctant minority can block progress. The law should be tightened still more.

In fact, in Pakistan fragmentation is much less of a serious problem than in the rest of India due to the existence of large estates and canal colonies. But wherever the problem exists it should be tackled with expedition. Consolidation alone however, will not solve our problem. Our main problem is tenant cultivation and absentee landordism. To meet this problem we require radical reforms of our land system and reorganization of our agriculture. This subject is discussed in the chapter after the next.

CHAPTER V

SYSTEMS OF LAND TENURE

1. Importance of Land Tenure. In the last two chapters we studied the various factors involved in the increase of agricultural production both under intensive and extensive systems of farming including the size of the unit of ownership and of cultivation. Developing the idea of ownership in its legal aspect we come to the study of Land Tenure

The importance of Land Tenure is twofold From the point of view of the State it locates the party from which it is to charge the land revenue due to itself. From the point of view of the productivity of land and agricultural progress the character of land tenure is of still greater importance. An owner-cultivator for instance, will exploit his land with much greater zeal and will be much more anxious to introduce permanent improvements, than a tenant who has to share the fruit of his labour with a landlord. For the agricultural advancement of a country, for social peace and contentment, therefore, a just and stable land tenure system is a very necessary condition The best system would be one which on the one hand provides the greatest incentive to effort and investment and on the other ensures the welfare of the actual tillers of the soil.

2. The Cultivator's Relation to Land Let us try to classify the various systems of landholding in respect of the legal position of the cultivator to the land he cultivates Thus .—

(*a*) A cultivator may be the tenant of the state The ownership of land may vest in the state and the cultivator may have direct relation with the state paying to the latter a specified rent. The state can in this case legitimately claim as its share an amount up to the maximum indicated by the true economic rent of the land *i e.* the true surplus over cost of production including wages and normal profits of the cultivator. Such a system is called *State Landlordism*

Whether the land belongs to the state or not was a subject of controversy in the Indian sub-continent for a long

time. This controversy also involved the question whether the Land Revenue charge is rent or a tax. The dominant view has been that the proprietary rights, with a few exceptions, have never belonged to the state. In the words of Baden Powell, the greatest authority on the subject: "The British Government has everywhere conferred or recognized a private right in land, and in large areas of the country—Bengal, Oudh and the whole of Northern India, for example—it has expressly declared the proprietary rights of the landlord and the village owners. It is then impossible to say broadly that the state takes a rent from the landholders regarded as tenants." "The Government is certainly not the owners," he adds. "The utmost it does is to regard the land as hypotheticated to itself as security in the last resort for the land revenue assessed on it."[1]

In certain lands, however, the state has proprietary rights in Pakistan and India. For instance, the Government has full proprietary rights on waste lands and over the 'khasmahal' estates in West Bengal and Madras in India and East Bengal in Pakistan. These are under the direct management of Government. Similarly in the canal colonies of the Punjab province of Pakistan some lands called the 'Nazul lands' are owned by the state, the cultivators paying rent to the Government. Thus State ownership is the exception while private ownership is the rule.

(*b*) The cultivator may be a tenant not of the State but of a private landlord. There is a large variety of tenures under this system depending on the nature of the landlord's and of the tenant's rights in the land. Thus :-

(*i*) The landlord may have full proprietary rights in the land with powers to eject the tenant and enhance the rent.

(*ii*) The landlord may be a mere rent receiver whose rent is fixed by custom or law and cannot be enhanced except acording to definite conditions already laid down.

(*iii*) As regards the tenant he my be an occupancy tenant who cannot be ejected from his holding as long as he pays a specified rent which cannot be enhanced except under certain conditions.

(*iv*) The tenant may be a tenant-at-will. In its worst form this system implies that the landlord can eject the tenant

(1) Baden Powell. Land Systems of British India Vol. I, p. 235.

whenever he likes and can charge from him as much rent as he may be able to squeez out. Such a system leads to the emergence of a floating tenant population, rack renting, especially where the demand for land is acute as in India and Pakistan, due to the lack of alternative means of livelihood for the rural population.

The general trend of tenancy legislation on the Indian sub-continent has been to ensure "fixity of tenure, fair rents and freedom of transfer" to the tenant. Such legal protection however has not been very effective as we shall see.

(b) The cultivator may be a sub-tenant, or the tenant of a tenant. This happens when the tenant sub-lets his land. In the worst cases he merely appropriates the difference between the rent he pays to the landlord and what he charges from his sub-tenant. This sub-tenant may again sub-let a part or the whole of the land and the process may continue indefinitely. The Bengal Banking Enquiry Committee found as many as thirty intermediaries between the proprietor and the cultivator in one estate in Bakarganj (East Bengal). This process which is known as subinfeudation is found in the two Bengals and some other permanently settled areas of the Indian sub-continent. This state of affairs has arisen because in these places there is left a large margin of economic rent after the small dues of the state have been met. This is then divided among a large variety of parasites. From the point of view of agricultural progress no system could be wrose. Recent tenancy legislation has aimed at discouraging such tenures though with meagre success.[1]

(c) The cultivator may himself possess the rights of ownership in the land he tills. These rights may be of varying degrees. The ownership may be absolute—of course conditional on the payment of land revenue to the state—or it may be relative, exercised under limitations imposed by law or custom in the interest of some other party. The right of ownership, however, may be regarded as complete for all practical purposes if the owner can sell, mortage, pass on to his decendant etc, the landed property concerned. Thus the occupant or the ryot under the Ryotwari tenure of Madras and Bombay in the Indian Union is practically the owner of his land. The peasant proprietors in the East and West Punjab are also owner-cultivators. The main difference between the passant proprietor of the Punjab and ryot of Bombay appears to be in respect of the ownership of waste land and the method of assessment and payment of land revenue.

(1) For further discussion of sub-infeudation see chapter XII Land Revenue

3. Land Tenure in Relation to Land Revenue.[1] From the point of view of land revenue assessment and payment land tenures have been classified as follows :—

(*i*) Zamindari System with permanent settlement. Under this system the land revenue is fixed in perpetuity and is payable by what are called Zamindars. This prevails in East Bengal in Pakistan.

(*ii*) Zamindari System with temporary settlement. Here the land revenue charge is settled for a period of time usually from 30 to 40 years and is payable by large estate owners as in the Punjab, Sind and N. W. F. P. in Pakistan.

(*iii*) Mahalwari System. Under this system the land revenue charge is payable collectively by land owners of a village or a 'Mahal' though they are also individually liable for the payment. The owners are usually peasant proprietors as are found in the Punjab and N. W. F. P. in Pakistan. The Revenue assessment is periodically revised.

(*iv*) Ryotwari system. Under this system the land revenue again is periodically revised and is payable by individual "occupants" or ryots holding the land. They are proprietors for all practical purposes. This system is found mostly in Bombay and Madras provinces of the Indian Republic and in Sind in Pakistan.

4. Summary of the Position. The position regarding the various kinds of land tenures prevailing on the Indo-Pak subcontinent may thus be summarised :—

(*a*) State Londlordism. The proprietary rights of the state only exist in what are called "crown lands". The proprietary rights of these lands have not been conferred on private individuals. These are usually waste lands gradually brought under cultivation by the extension of canals. Rights in tenure can be purchased by or conferred on private individuals under certain conditions. This system is not of any great significance and is not intended to be a permanent feature of landholding.

(*b*) Private Landlordism. Here the proprietary rights have been conferred on private individuals. This again is of two kinds : (*i*) Permanent Settlement Estate system where the land revenue is fixed in perpetuity as in East Bengal in Pakistan and West Bengal, Bihar, Orisa and parts of Madras in the Indian Republic. (*ii*) Temporary Setllement Estate system where the land Revenue charge is revised after a period of from 30 to 40 years. This system embraces the large Estates outside the

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(1) For details see chapter XII Land Revenue.

permanent settlement area, i.e. U.P. and C P in the Indian Republic and parts of the Punjab, N W.F.P. and Sind in Pakistan

Small ownership units in the (Pak) Punjab and also in N W F P may also be brought under this category as far as the ownership is concerned Their land revenue charge is also fixed periodically The land revenue, however, is fixed on the basis of the 'Mahal' or the village This system therefore is sometimes called "Mahalwari" The owners of land individually and collectively are responsible for the payment of the land revenue From the ecnomic point of view, however, the small ownerships stand on a different footing since they are normally cultivated by the owners themselves while large estates involve tenancy cultivation This fact is of great economic significance.

(c) Ryotwari system. This system stands in between private landlordism and state landlordism having certain common features of both Some writers regard it akin to state landlordism because (i) the ryot or the occupant is free to give up a piece of land if he thinks it is not worth cultivating In that case he is not liable to the land revenue charge and the land reverts to the state, (ii) the ownership of "Commons" or 'Shamilat' vests not in the village community as under the Mahalwari System of the Punjab, but in the state. On the other hand for all practical purposes the ryot or the occupant is the proprietor of the land as long as he continues paying the land revenue to the state His rights are heritable and transferable Under this system sometimes conditions similar to absentee landlordism also arise and ryots can be owners of large landed estates as in Sind

5 The Economic Aspect of Land Tenure So far the legal position From the ecnomic point of view the system of land tenure in Pakistan (and also in the Indian Republic) has led to two kinds of relationships between the land and the tiller of the soil.—

(I) Absentee Landlordism. Here the actual cultivation is carried on by tenants (usually tenants at-will) and the owner is a mere rent receiver Mostly this rent is paid as a half share of the gross produce An absentee landlord may be an owner of a tiny plot when for one reason or another he is not in a position to cultivate it himself, as in the case of orphans, widows, very old persons, or public servants or others who have moved to towns But the typical landlord is a large estate-holder who is either engaged in some political activities or just lives on the

rent without contributing anything to the national dividend, not to speak of the progress of agriculture.

(2) The Peasant Proprietorship. In this system the actual owner or occupier, as the case may be, is the cultivator of the land. Occupancy tenants for all practical purposes may be regarded as peasant proprietors. As long as they pay the fixed 'Malikana' to the landlord and observe the conditions under which they hold occupancy rights the owner has little occasion to interfere with them. Their social status in the village hierarchy, however, is definitely lower than the owning classes and thus extension of the system as an alternative to the conferment of full proprietary rights (as we shall suggest later) cannot be recommended.

The peasant proprietor as we have already noted has a stronger moral back bone on account of his independence. The system of peasant proprietorship, where the holding is large enough to yield a decent standard of living, produces an independent and self-respecting class of peasants who can be the pride of healthy manhood. They make excellent soldiers. Where; however, the holdings are small and fragmented and financial resources meagre, as is the case with the majority of this class, the system perpetuates primitive agriculture. Mere creation of peasant proprietorships, as we shall see, will not solve our problem.

6. **Land Tenure in Pakistan Provinces.** In the light of the above general discussion of land tenures we are now in a position to study in some detail the various types of land tenures in the provinces of Pakistan. The following table[1] classifies the total area of Pakistan according to provinces and the system of land tenure under which such area falls :

(1) We are indebted to Karachi Commerce for this table.

Units	Ryotwari (acres.)	Zamindari permanently settled (acres.)	Zamindari and village communities temporarily settled (acres.)	Total area less feudatories (acre.)	Cultivated by owners per cent. of total.	Cultivated by tenants-at-will per cent. of total.	Land Revenue excluding cess.	Incidence of L.-R. per cultivated acre.
							Rs.	Rs. a. p
Sylhet ...	755,352	2,099,797	230,251	3,085,400	70%	30% 50 : 50 crop sharing	1,28,974	1 5 8
E. Bengal ...	...	26,693,350	8,307,531	34,991,031	70%	30% 50 : 50 crop sharing	17,587,817	1 2 7
Sind ...	30,180,024	...	...	30,180,024	20% 50 : 50 crop sharing	80 % 50 : 50 crop sharing	17,354,528	3 8 0
N.-W.F.P. ...	...	..	8,577,000	8,577,000			2,772,455	1 13 11
Punjab (Pak) ...	...	...	37,204,621	37,204,621	51 8	48·2 50 : 50 crop sharing	34,939,215	1 15 1
Baluchistan ..	...	...	336,000	336,000		50 : 50 crop sharing		
Total ..	30,935,376 27%	28,783,347 25%	54,319,403 48%	114,011,126 100%				

The above classification is based on the type of land revenue settlement prevailing in each case. It also tells how much of the land is being cultivated by peasant proprietors and how much by tenants, a fact which is of greater significance from the economic point of view. We propose to consider this matter province-wisc.

7. **Land Tenure in East Pakistan.** In East Bengal 76 per cent. of the total area is under Zamindari Permanent Settlement, 22 per cent. under Zamindari Temporary Settlement and 2 per cent. under Ryotwari tenure. About 80 to 90 per cent. of the area under Zamindari Settlement is held by the ryot whose rights have been regulated by a series of tenancy laws. The net effect of this legislation has been that the rights of the ryot *vis a vis* the Zamindar are of a similar nature as they would be if they had held these lands directly under the Government as under the ryotwari system. The incidence of the rent payable by the ryot to the Zamindar is about the same as the incidence of the land revenue payable by the ryot to the Government under the Ryotwari system of the same province.

As regards the system of cultivation, the land is cultivated by the ryot himself or it is sub-let to crop sharers (called bargardars); the latter are either landless labourers or occupancy tenants of very small holdings. The ryot in such cases escapes all costs of production and risk and is yet entitled to half the gross produce. The bargardars are mere tenants-at-will and enjoy no fixity of tenure. They have little incentive in cultivation and undertake it simply owing to the lack of alternative employments. In the words of the Bengal Land Revenue Commission (1938): "The barga system overrides the principle that the tiller of the soil should have security and protection from rack-renting. No one denies that half the produce is an excessive rent. Further, the balance of opinion in all countries is that this system of cultivation is not economic and therefore not in the interests of the community as a whole." The Commission recommended that legislative protection should be given to bargardars on the same lines as applied to another category of tenants in Bengal called the "under-ryots". They also recommended that the rent should be fixed at one-third instead of one-half of the gross produce.

About 2% of the land is under cultivation possession of the proprietors of estates. Such land is cultivated by hired labourers who work under the supervision of the servants of the landlords. Such workers also haye little incentive for increasing production.

About 70% of the total area is cultivated by the ryot whose position is similar to the peasant proprietor. But his holding is small and his resources meagre. The Bengal Land Revenue Commission suggested that in order to improve the economic condition of such cultivators the Zamindari system should be replaced by the ryotwari system This will make the Government the sole landlord which would then be in a position to initiate schemes for consolidation of holdings, restoration of economic holdings, provision of grazing land etc.

We shall come to the problem of landlordism and its abolition presently. Here we are reviewing broadly the main features of land tenure in Pakistan.

8. **Land Tenure in West Pakistan.** Proprietorship in land (apart from the complications introduced by the land revenue assessment) is of two types in West Pakistan, *viz.* (*a*) Peasant proprietorship ; (*b*) Landlordism.

Under the system of peasant proprietorship the land is cultivated by the owner himself with the help of his family or a few occasionally hired labourers. Its importance varies from province to province. In the pre-partition Punjab it was estimated that about 42% of the total area of the province was cultivated by peasant proprietors. This percentage must be considerably smaller in the West Punjab because the peasant proprietors were predominantly found in districts which now form East Punjab province of the Indian Republic.

The vast majority of the holdings of peasant proprietors are extremely small. Small owners are therefore usually peasant proprietors though they may also take some land on rent to supplement their holdings for purposes of cultivation. The following table indicates cultivated area distirbuted in the West Punjab according to the Muslim League Agrarian Reform Committee :

Ownership. Group	No of Owners. Lakhs	Acreage. Lakh acres
Up to 5 acres	9 06	18 0
5 to 10 acres	2 27	16'0
10 to 15 acres	0 52	8 0
15 to 25 acres	0'64	13 5
over 25 acres	1 01	90 5
Total	13 50	146'0

If persons holding up to 25 acres be regarded as peasant proprietors they form 92 per cent. of the totai owners and they hold only 38% of the total area of the province. According to this estimate about 62% of the area is cultivated by tenants. But since some of the small holdings also are not cultivated by owners themselves, the area under tenancy is probably larger than this percentage. It is, however, clear that a vast majority of owner cultivators are small holders. About 70% of them own less than 5 acres each, which is hardly an economic holding. Middle peasants who may be defined as those holding between 10 and 50 acres each, are 1·81 lakhs in number and they own 36 lakh acres of land. Thus, such peasants are about 13 per cent. of the total owners and they own about 25 per cent. of the total cultivated area.

Detailed figures are not available about other provinces of Western Pakistan. In N. W. F. P. out of the total cultivated area of 25,25,713 acres, 10,48,523 acres (42%) is directly cultivated by peasant proprierors; 2,78,630 acres (11%) by occupancy tenants and the balance is owned by large owners and is cultivated by tenants-at-will The total cultivated area in Sind is about 56 lakh acres which is owned by 2,44,89 owners (5·4% of the total population). "As far as we can ascertain," wrote the Bengal Famines Enquiry Commission (1945), "large holdings are more common in Sind than in other provinces and only about one-fifth of the land is held by small holders [1]." We may therefore asume that 20 per cent. of the total area *i.e.*, 11·5 lakh acres is cultivated by peasant proprietors. The rest of the area is held by large estate holders usually called 'Zamindars' and is cultivated by "*haris*" who are tenants-at-will. Between the Zamindar and the *hari* may exist intermediate holdes called Mukaddams. There are also a few Jagirdars who hold land revenue grants from the government. There are also lease holders. The Hari is the typical cultivator.

The League Agrarian Reform Committee[2] has given the area cultivated by peasant-proprietors in the settled Tehsils of Baluchistan as under:—

Quetta: 48 per cent; Pishin: 61 per cent; Shahrig: 74 per cent; Sinjawi: 84 per cent. In the Bahawalpur State about 50% of the agrarian population consists of "abadkar", a large

(1) Famine Enquiry Commission Report,
(2) Report, p. 11

proportion of whom are peasant proprietors. We have no figures to indicate the total area cultivated by them.

On the whole one may conclude that considerably less than half the cultivated area in Pakistan is owned by peasant proprietors and consequently as the League Committee has put it, "considerably more than half of the cultivated area is owned by landlords, who," they add, "do not directly till the soil, who live on rent and who cannot therefore be called the producers of national wealth."[1]

9. Landlordism: Its History and Present Position. This brings us to the consideration of the second form of proprietorship in Pakistan—*i.e.*, Landlordism. As we shall see, this is our main agrarian problem. Let us start with its history on the sub-continent of India. Proprietary rights of Zamindars in this part of the world are of comparatively recent origin. During the Hindu period village communities consisted of peasant proprietors, their rights being limited only by the revenues demanded by the state. Proprietary rights were vested in the head of the family who could transfer them to his heirs. Land grants made by kings were rare and even then were on a temporary basis.

During the Muslim period, Feroze Tughlaq brought order out of the preceding chaos by his land reforms which were primarily based on the system of peasant proprietorship Sher Shah Suri introduced a detailed system of land revenue assessment, which was later extended and approved by Akbar. Akbar's system was primarily of state landlordism involving direct settlement with individual cultivators.

After the break-up of the Moghal Empire, Government authority and its efficiency deteriorated rapidly. The duty of collecting revenue was assigned to a class of people who were granted certain privileges and profits of collection. These rights later became heritable and profitable.

In 1765 Shah Alam granted the Dewani (right of collecting revenue) of Bengal, Bihar and Orissa to the East India Company. The Company first tried to collect revenue through its own officials but as this method proved unsuccessful, they began to auction the rights of collection from 1772 onwards. These revenue collectors, however, did not become proprietors until after the Permanent Settlement of Bengal in 1793.

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(1) Report p 13.

This system was later extended to other parts of the country with the extension of the British power. The idea of permanent settlement, however, was given up, though in every other respect proprietary rights were vested in this new class of landlords.

Most of the present landlords were thus originally revenue farmers. There are, however, a few others who were originally princes but were reduced to the status of landlords by foreign conquest. The system, therefore, has not been of indigenous growth; but has been imposed upon the country by foreign rulers. This is as much true of Western Pakistan as of other parts of the Indian sub-continent. This is forcefully borne out by the fact, as pointed out by the League Agrarian Reform Committee, that almost no large landowning family of this region (Western Pakistan) can trace their proprietorship to beyond the Mutiny, and only a few can claim it otherwise than through British benefactions."[1]

On the basis of land revenue assessment-landlordism or Zamindari tenure has assumed two forms: (*i*) Zamindari Tenure Permanent Settlement and (*ii*) Zamindari Tenure Temporary Settlement. These systems we shall examine in detail while studying land revenue. Here it may be noted that a settlement is the official assessment of the land revenue due to the State. "It is preceded by a more or less full survey, classification and valuation of the land and an inquiry into the rights of all persons concerned."[2] As already noted, a settlement may be permanent or temporary. The first settlement on this sub-continent was made by the British in Bengal where the Permanent Settlement was introduced by Lord Cornwallis in 1793. The officials of the Moghal rulers, who were merely revenue collectors on rent basis, were made the "Zamindars" or the landowners. They were mistaken for landlords in the English sense. The revenue due from the Zamindars was fixed in cash in perpetuity.

The immediate objective of permanent settlement was the regular collection of revenue. This having been realised, the system was extended later to United Provinces, Bihar and Assam (then parts of the Bengal Presidency), Orissa and Madras.

The mistake of the British lay in the fact that they by adopting this system, vested in the revenue collectors for all times to come, proprietary rights in the land, leaving the

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(1) Report, p. 12.
(2) Vera Anstey: Economic Development of India, p, 98.

cultivators at the mercy of this parasitic class This meant gross injustice to millions of the tillers of the soil who were deprived of their rights in land. The consequence was that in the interval of 65 years between 1793 and 1859 "while the proprietary body grew in strength and prospered in wealth, village communities perished .. and almost every vestige of the constitutional claims of the peasantry .. was lost in the usurpations and encroachments of the landlord"[1]

The State tried to protect the interests of the peasantry by legislative measures fixing rents and conferring security of tenure and prohibiting illegal exactions but such measures it appears have not been effective. The Bengal Revenue Commission in 1938 wrote, "There is a notable absence in Bengal of that certainty as to the respective rights and obligations of the parties which a sound and satisfactory system of land tenure should provide .... in spite of the prohibition of *abwabs* and other exactions in addition to rent, which were contained in the permanent settlement regulations and in tenancy legislation there is still evidence of their continuance in the reports of settlement operations"[2]

The Bengal Land Revenue Commission which was appointed in 1938 and reported in 1940 was in favour of abolition of this system and its replacement by a Ryotwati system. We shall pursue this subject in our chapter on Land Revenue Suffice here to say that a Bill to this end has already been passed by the E Bengal Assembly.[3]

In the temporarily settled areas the problems of large estates are analogous to those of estates under permanent settlement. Apart from the assessment of revenue which is revised periodically, the other features of the tenure are similar with similar repercussions on the productivity of the soil and the economic condition of the actual tillers of the land As a rule the owners of these big estates do not cultivate them themselves They are cultivated by various kinds of tenants

In some provinces of Pakistan (and India) between the tenant cultivator and the landlord who is responsible for the payment of revenue to the Government, are found what may be called sub-proprietors or those who have sub-proprietary rights This feature is common between the permanently and

(1) Speech of the Governor of Bengal before Legislative Council in 1883 quoted by Sir Aziz ul Haque in his Man Behind the Plough p 255

(2) Bengal Land Revenue Commission Report Vol I, p 38

(3) A Summary of the Bill is given as an Appendix to chapter XII, Land Revenue

temporarily settled estates. Such sub-proprietors are called by various names in various provinces. In East and West Bengal they are called "Tenure-holders" who possess the privileged status of permanent, heritable and transferable tenure held at fixed payment. "Pattidars," also found in Bengal who have permanent leases of a part of the estate. Pattidars in their turn create tenants called 'darpattidars' with similar privileges and responsibilities. In Oudh there are sub-proprietors below the "Talukdars". The latter are overlords who are responsible for payment of land revenue to the Government. Sub-proprietors may themselves be cultivators or they may have tenants to cultivate their lands.

In Pakistan the permanent settlement system is only found in East Bengal. In the provinces of West Pakistan the landed estates are all temporarily settled and as a rule, there are no sub-proprietors between the landlord and his tenant cultivator. This, however, does not mean that the cultivator is not thoroughly exploited by the landlord.

10. Tenancy Cu.tivation. We may explain here the two kinds of tenants found in Pakistan especially West Pakistan. A tenant may be occupancy tenant or a tenant-at-will. Occupancy tenants are a privileged class of people whose position is practically like that of owners though socially their status is inferior to the landowning class. For the West Punjab and the N.-W.F.P., the Punjab Tenancy Act of 1887 (Section 9) laid down the terms on which occupancy rights could be acquired. Such rights may also be acquired by contract with the landlord. In addition to the land revenue that he pays to the Government the occupancy ten ant pays a sum varying from 2 annas to 12 annas per rupee of land revenue to the landlord as malikana. There are hardly any occupancy tenants in Sind.

Comparatively small proportion of land is held by occupancy tenants in Western Pakistan. In the united Punjab it was 7% of the total cultivated area and in N.W.F.P. it is 11%. In Baluchistan such proportion varies from 1% in Shahrig tehsil to 8% in Quetta and Pishin tehsil.

The tenants-at-will, however, form the most substantial proportion of the agrarian population in West Pakistan. They cultivate 80% of the total area in Sind, about 50% in West Punjab, 47% in Frontier Province and about 50% in Bahawalpur State. As regards the various tehsils of

Baluchistan they cultivate 40% of the total area in Quetta, 27% in Pishin, 25% in Shahrig and 16% in Sinjawi.[1]

The position of the tenant-at-will is very precarious. He can be ejected at the sweet will of the landlord and is subjected to a variety of illegal exactions and oppressions. In their communications to the Bengal Famine Enquiry Commission the Punjab Government wrote, "The tenants are sometimes rack-rented, poor and insecure and consequently have not the means for the necessary incentive to effect improvements.[2]" The usual rent paid by the tenant is half the gross produce which in itself is quite excessive. Actually the tenant pays more. In the words of the Pakistan Muslim League Agrarian Committee: "Apart from the legal dues of the landlord there are in most cases, particularly in Sind and the landlord-dominated districts of Punjab and Bahawalpur, a variety of legally unjustified dues and service which are sanctioned by custom and enforced by the superior bargaining power of the landlord. These dues and services are extremely oppressive and include 'begar,' 'Khurcha', 'Munshiana', 'Kamiana' and 'Karaya'. In certain parts there are other taxes, which the landlords exact from the tenants, for instance, 'faslana', 'khunga' and a tax per hearth, window or even for every domestic animal or chicken. Landlords in backward areas are even known to charge a homage on the marriage of their children and even a tax on the marriage of the tenant or his children." According to an investigation by the Punjab Board of Economic Enquiry the landlord's share is sometimes as high as 75% or even 90%.[3]"

11. Economic Consequences of Tenancy Cultivation. Landlordism in Pakistan and India means "absentee landlordism" with the most backward tenancy farming. We cannot say generally that tenancy farming under every circumstance is to be condemned. "The best agriculture in the world," says Calvert, "is carried on under the tenancy system (England)." That is because the English landlord is his tenants' "best friend" says Calvert, "and spends fully one-third of his rental back on the land and its needs" "Most Punjab landlords would spend practically nothing back on the land."[4]

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(1) League Agrarian Reform Committee Report, pp 14-15
(2) Report Vol. II, p 266
(3) League Agrarian Committee Report, p 15.
(4) Calvert: Principles of Rural Economics, p. 126.

Tenancy farming is carried on as, already noted, under what is called the "batai" system, in the various parts of West Pakistan. Under this system the rent of the land is paid in the form of from one-half to one-third (according to circumstances) of the gross produce. Almost the entire costs of production are met by the tenant from his share. The government demand is paid by the landlord. Of such a system Marshall has to observe as follows: "When the cultivator has to give to his landlord half of the return to each dose of capital and labour that he applies to the land, it will not be to his interest to apply any dose, the total return from which is less than twice enough to reward him."[1] This is what exactly has been happening in Western Pakistan. Speaking about the tenant cultivation in the Punjab Calvert wrote: "They generally take less care in preparing the land, plough it less often, manure it less and use fewer implements upon it than owners. They grow less valuable crops, especially avoiding those requiring the sinking of capital in the land; they make little or no effort for improving their fields; they often keep a lower type of cattle; they avoid perennials and bestow no care on trees."[2]

The tenant behaves in this way partly because of the inadequate incentive for additional effort and investment under this system, and partly because of his general poverty and ignorance. The tenant is a primitive cultivator with practically no financial backing and cultivates small holdings even when his landlord is the owner of a big estate. In advanced countries like England, the tenant-farmer is a man of fairly good means who gets large blocks of land on a long lease and undertakes large capital investments. The landlord is responsible for investments in fixed capital. Landlords in Pakistan even when owning hundreds of acres of land give out their lands in small portions to tenant families who cultivate them on the old primitive lines they have inherited from times immemorial. There are no capitalist farmers and the landlord himself does not interest himself in helping his tenants financially or otherwise. The result is that the land is utillised in a most wasteful manner and progressive methods of agriculure become out of the question.

Apart from the economic effects of landlordism it has serious social and political repercussions which may also be mentioned in passing. Socially the position of the tenant in most areas is that of a serf. Practically he belongs body and soul to the landlord who being the most influential man in the area

(1) Marshall Principles of Ecnomics 7th Ed. P. 644.
(2) Calvert: op cit. pp. 206-7.

succeeds in closing all channels through which the oppressed cultivator could get his position redressed by resort to law. Not that all landlords are oppressive but there is no denying the fact that the system gives too much temptation for exploitation to be resisted except by the most high-minded among the landlords and their number is not expected to be large in view of the surroundings in which they have grown. The system thus demoralises the landlord and the tenant both and in consequence lowers the general moral standards of the nation

12. Protection of the Tenant in Bengal. In the past the state has attempted to protect the tenant through legislation. Among the provinces of India the first to resort to tenancy legislation to protect the interests of the tenants was Bengal. By the Permanent Settlement of 1793 the land revenue as we have seen was fixed sufficiently high and was to be collected strictly by the Zamindar. Though it was intended that the rights of the tenant would be secured, it was not done until the middle of the 19th century. It was in 1859 that the first Indian Tenancy Law was passed in Bengal—the Rent Act of 1859. This was later amended by the Tenancy Act of 1885. This Act provided that every cultivator who had held land in a village for 12 years acquired thereby a right. Most of the ryots thus became occupancy tenants who could not be ejected except in execution of a d
their rent could not be
five years. This Act was
1907, with the object of
the collection of rents and also of guarding against enhancement of rents by collusive compromises. The amendment also removed ambiguities, anomalies and defects found through twenty years of the working of the Act.

In 1928 another Tenancy Act was passed, according to which holdings could be transferred by the tenant subject to the payment of a fee. It also gave the landlord the right of pre-emption. The Act further strengthened the right of the under-ryots dividing them into three classes entitled to different degrees of protection.

In 1938 the Bengal Tenancy Act of that year was passed. It abolished illegal exactions and cesses charged by the landlord from the tenant; gave the tenant right to recover his alluvial land within 20 years on payment of four years' rent; conferred the same rights on the under-ryot which had been enjoyed so

far only by the occupancy tenants and reduced the rate of interest payable on arrears of rent to $6\frac{1}{4}$ per cent. The Pakistan province of East Bengal comes under this Act.

The East Bengal State Acquisition and Tenancy Bill 1948 also contains some previsions which protect the interests of certain classes of tenants. Some of these provisions are consequential to the main provision of the Act *viz* the acquisition of rent receiving rights by the state. Thus all holders of service tenancies (holding agricultural lands free of rent in consideration of some service to bc rendered) will acquire occupancy rights in such lands subject to the payment of a fair and acquitable rent to their immediate land lords. Such tenants will be entitled to a compensation if, on an order of a court, they have to move their homesteads from, within the homestead of a landlord. If they have been ejected after 7th April 1948 their lands can be restored unless the ejectment took place under the order of a civil court or other competent authority.

After state acquisition all lands held by tenents under Government will pay fair and acquitable rents. All agricultural tenants (Ryots) will have permanent heritable and transferable rights in their lands and will be able to use them as they like. An agricultural tenant will not be ejected from his holding except in execution of a decree of a civil court passed on the ground that he has done any act in contravention of the provisions of the Act. In casses of transfer of raiyati lands, co-sharer tenants and tenants holding contiguous lands will have the right of pre-emption.

The rent of a ryot cannot be enhanced beyond the maximum rate of rent fixed in the table which will be prepared for different classes of land. Rent enhanced once will not be liable to enhancement within 30 years.

No tenant, however, will be allowed to sublet his land after state acpuisition.

The Act thus greatly improves the status of a tenant. It confers rights of occupancy and makes them heritable and transferable. It fixes fair rents and prohibits ejectment except in pursuance of decree passed by a competent court ; finally it abolishes service tenants[1].

14—Tenancy Lagislation in the Punjab. As regards the Province of the Punjab, the Tenancy Act of 1887 governs the

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(1) For details see Appendix to the Chapter XII Land Revenue.

tenant-landlord relations, as far as occupancy tenants are concerned. The Act defines occupancy tenants as those who for two generations have paid neither rent nor services to the proprietors, but only their share of government assessment.

Occupancy tenants in the Punjab belong to different categories according to their rights and obligations *vis a vis* the land lord. There are (*i*) those who pay only land revenue and cesses or District Board dues. The landlord gets nothing except the prestige of ownership (*b*) those who besides land revenue pay *malikana* to the landlord, which is generally annas 2 per rupee of land revenue, but may go up to annas 8 per rupees; (c) those who pay Chakutra or or cash rent usually fixed at the time of the Settlement; and finally are those who pay rents in kind the rates of which are also fixed at the Settlement.

The occupancy tenants in the Punjab enjoy extensive rights. They can hold land permanently so long as they pay the rent fixed by authority. They can pass this land on to their descendents on the same terms; in fact they are more than mere permanent tenants; they are individuals who in many cases would have been owners. In practice the only difference between a typical occupancy tenant and the landlords is that the former has to pay to the latter the *malikana* and the landlord is theoretically responsible for paying the land revenue to the State.

In the Punjab occupancy tenants hold less than 10 per cent of the total cultivated area. It has been suggested that this class of tenants should be abolished, because their existence leads to irritations and litigation between the land lord and the tenant, the result of which is that the land is neither properly looked after by the one nor by the other. There are certain reasons for which even these tenants can be ejected e.g. when the tenant uses the land for purposes other than for which it was originally given etc. The landlord thus gets opportunity of harrassing his tenants on one excuse or another.

The question of tenancy was entrusted to a committee by the Punjab Government in 1949, the report of which has not yet been made public. A member[1] has revealed, however, that the committee concluded that occupancy tenancy was supported neither by the tenants nor the landlords and that there was a general demand for its abolition. Its abolition will presumeably take the form of giving option to renants and the land lords to purchase the share of the one or the other respectively.

(1) M. Hassan Occupancy Tenants in the Punjab. Pakistan Economic Journal August 1950. P. 85

More than 10 million acres (out of a total of 11½ million acres under tenancy) in the Punjab is cultivated by tenants-at-will. The tenant-at-will in the Punjab enjoys no legal protection against enhancement of rent and ejections. "The extension of the peroud of tenancy" wrote Dr. Mukherjee a few years ago about the Punjab tenant-at-will, "beyond eight years is quite rare, and generally speaking, those tenants-at-will who cultivate small areas are replaced at quick intervals."[1] The Tenancy Act of 1887 allowed a tenant-at-will to make improvements with the assent of the landlord. If he could prove this assent he could not be ejected and his rent could not be enhanced until he had received compensation for his improvements. "But local conditions" according to Calvert "make it very difficult to prove improvements.[2]

Recently however some legal protection has been extended to the tenants-at-will in the Punjab. The Governor in 1950 promulgated two Acts to this end (i) The Punjab Tenancy (Amendment) Act and and (ii) The Punjab Protection and Restoration of Tenancy Rights Act. The former measure seeks to abolish the various cesses (abwabs) which the tenants had to pay to thejr landlords in actual practice even though they had no legal sanction. These impositions have been declared "unjust and unauthorised exactions." According to the Act "no tenant shall be entitled to any thing in the shape of a cess, village cess or other contribution or any other free personal service in addition to the rent payable for land held by the former under the latter."

The Punjab Protection and Restoration of Tenancy Rights Act was necessitated by a large number of ejectments that took places in the Punjab early in 1950. The landlords resorted to this method, because they thought occupancy rights on the lines of those conferred by the Sind Tenancy Act of 1950 might be conferred on their old tenants too. The Act places restrictions on the right of a private owner of agricultural land to eject his tenants summarily. It sets aside, with retrospective effect, all such ejectments. The landlord can only eject his tenant if he is not cultivating the land according to the specific or customary terms of his tenancy or does not pay the land rent promptly or engages himself in a compaign of advocating non-payment of rent.

(1) Economic Problems of Modern India Vol. I. 236.
(2) Calvert: wealth and welfare in the Punjab. P. 200.

According to the government view, on account of these Acts "The entire structure of the rural Provinces' 50 years old feudalistic of ecconomy has undergone a new drastic change which will have far-reaching effects on its social and political life as well"

Such high praise is not warranted even though some legal protection to tenants is better than none. Such legal measures have not achieved their purposes in other provinces of India and Pakistan. The landlord can alway take advantage of the lopholes left in the Act He can 'prove' that the tenant is engaged in unlawful activities. The tenant is no match to him. The fundamental fact is the weak bargaining position of the tenant *vis a vis* the landlord, as we shall see.

15. N.W.F.P. Tenancy Act, 1950. The Punjab Tenancy Act of 1887 also applied to the North West Frontier Province. Recently a new Tenancy Bill has been passed by the Provincial Assembly. The main provisions of the N.W.F.P. Tenancy Bill as passed by the Provincial Assembly on 9th January, 1950 are :—

It confers full proprietary rights on occupancy tenants. According to clause 4 of the Bill occupancy tenants who at the commencement of the Act paid no rent, except land revenue, rates and cesses to landlords, would become full owners without payment of any compensation to the landlord. Those who paid rent in cash or kind would become owners at the payment of compensation as fixed by the Government. Compensation, however, must be paid within a specified period as fixed by the Government, failing which the land will revert to the present owners. The Bill also abolishes the 'begar' system and makes ejectments of tenants unlawful except under decree or order of competent authority. It provides summary trial of those who obstruct the tenant in getting his due share of produce.

The Bill is a welcome measure, because in this Province so far, the tenants-at-will have been entirely at the mercy of landlords. Abolition of occupancy tenancy is welcome, but whether the occupancy tenants will be able to acquire full proprietary rights will depend upon the magnitude and conditions of payment of the compensation as fixed by the government. If the compensation is so heavy as to be beyond the financial resources of the tenant the Bill may succeed in adding to the number of tenants-at-will instead of that of the proprietors. Abolition of 'begar' and ensuring proper share of produce to the tenant cannot be achieved unless the tenants,

bargaining power is strong, which is not the case at present. This has been the main reason why on the sub-continent of India legal protection has not been effective so far as the tenant's interests are concerned.

16. **Sind Tenancy Act, 1950.** As regards Sind the tenant class is the "Haris" whose economic condition is precarious. They enjoy no legal protection. In 1947-48 the Government of Sind appointed a Committee—the Hari Enquiry Committee. The majority report of this Committee suggested measures for the improvement of the economic conditions of the Haris by means of regulation of tenancy agreements, batai system and improved methods of land utilization and the principle of collective farming. One of the members presented a minority report in which he recommended the total abolition of the Zamindari system and substitution in its place of the system of peasant proprietorship. The report further recommends that landlords should be compensated for the land acquired from them.

On the lines of the recommendations of the Hari Committee a Bill was framed which has recently been passed by the Provincial Legislature as the Sind Tenancy Act of 1950. The Act seeks to grant permanent tenancy rights under certain conditions, it abolishes 'abwabs' and provides for the regulation of the 'batai' system. It also provides for settlement of disputes between the Haris and the Zamindars.

It is, however, very doubtful whether the Sind Tenancy Law will improve the position of the Haris. In the first place, the conditions which must be satisfied before permanent tenancy rights are conferred on the Haris will be very hard to satisfy.

These conditions are: (*i*) The tenant should have cultivated at least four acres of land for the same landlord for a continuous period of not less than four years. (*ii*) He should have cultivated such land personally. (*iii*) Such piece or parcel of land should not exceed the area that can be efficiently cultivated with the help of one pair of bullocks. (*iv*) In case of shifting cultivation tenancy rights are not to exist in respect of any particular piece or parcel of land defined by metes and bounds.

Apart from the other conditions which limit the area that can be brought under permanent tenancy, the first condition alone would be almost impossible to satisfy. There is nothing

to prevent the landlord to eject the tenant (before the period of four years of his tenancy is over. This will make ejectments more common and the position of the tenant-at-will more precarious than ever. In fact large-scale ejectments have been taking place recently presumably in anticipation of the new Law.

While it has been made difficult for the tenant to acquire hereditary rights, the new Law has made it quite easy for the landlord to deprive the tenant of such rights. He can be deprived of such rights if (*i*) He absents himself from his land for one year. (*ii*) Makes a different use of the land without the landlord's permission. (*iii*) Fails to cultivate the land personally. (*iv*) Fails to pay the landlord his due share of the produce or (*v*) is convicted by a court of law of any offence such as cattle theft, receiving stolen cattle, theft of crops, abduction etc. Further the landlord may terminate the tenancy of a permanent tenant by giving him one year's notice in writing on the ground that he requires the land for 'bona fide' cultivation etc. or for any non-agricultural purpose.

Regarding the sharing of the produce with the tenant-at-will the Act makes the following provisions:

(*i*) The tenant-at-will shall continue to share half the burden of payments (in kind) made to harvesters, winnowers and 'dharwals'.

(*ii*) The tenant shall be responsible for the cost of implements, animal labour, seed and irrigation bunds

(*iii*) The landlord can deprive the tenant of his share in produce in realization of debts.

(*iv*) According to the amended clause 18 the tenant shall continue to be deprived of a substantial part of his share in straw, 'karbi,' 'buh', 'palal' and green grass.

Thus the Act seems to give legal sanction to the practices which have already been in vogue and against which the tenant required relief. 'Abwab', and 'begar' has no doubt been banned but no arrangement has been made to ensure the observance of such a ban. The tribunal that has been provided for settlement of disputes will consist of only one member—the mukhtar-kar. He is more likely to be under the influence of the well-to-do landlord than of the poor tenant.

It would appear from the recent attempts at tenancy legislation that the solution of the problem does not lie in the direction of regulation of the conditions of tenancy. Much

more progressive measures in the provinces of pre-partition India achieved little protection for the tenant. The crux of the matter is that the struggle between the landlord and the tenant is an unequal fight are in which one party is definitely in an inferior social, political and economic position. Moreover, the matter is not merely of the respective rights of the two parties. It is a matter of national importance both from the of point view of social and political stability and of economic productivity of our land and labour. More radical measures than merely regulation of *status quo* is indicated; what is needed is the reorganization of our entire agricultural system.

CHAPTER VI

REORGANIZNG OUR RURAL ECONOMY

1. The Need. The foregoing three chapters have brought-out a number of important conclusions which must be clearly stated now: Firstly, we have seen that Pakistan possesses fertile soil and an irrigation system which is among the best in the world. Among the agricultural products she has almost a monopoly of Jute and contributes a considerable share in international trade as far as cotton is concerned. She is an important exporter of tea and hides and skins. All these have contributed to the stability of our economic life so far. But our too much dependence on exports of a few raw materials can be a source of weakness in times of depression. It is necessary therefore that our production and export trade should be more diversified. Hence the need for crop planning. As regards food products we have a surplus of wheat and a deficit of rice. On the whole we are a surplus country in cereals in normal times. Here also greater diversity in out food resources is indicated to give more variety and greater vitamin content to our diet. This fact again points towards scientific crop planning. So far our production has been haphazard. 2ndly: Compared to more advanced countries of the world Pakistan does not get adequate returns from her soil and other resources invested in land. If productivity per acre could be increased the present production could be obtained from $\frac{1}{3}$ to $\frac{1}{2}$ of the present area under cultivation, thus releasing the balance for production of other varieties of crops. Conventional methods of increasing production in the way of better seed, more manures and adequate water etc., have not yielded spectacular results. Nor has extension of cultivation to new lands kept pace with the increase in population. Though there are considerable possibilities of bringing new lands under the plough the main resort in Pakistan must be on getting more out of the area already under cultivation through more scientific methods of production. 3rdly: The failure of measures of intensive farming has been partly due to the conservatism of the cultivator, but mainly it has been the result of the system of land ownership in the country which has kept the unit of cultivation very small. Further, it has on the one hand produced a parasitic class of absentee landlords who have no interest in the development of agriculture and on the other a resourceless and oppressed class of tenants. who have neither

the financial resource nor the incentive nor the opportunity of taking to more scientific methods of farming. The result is a colossal waste of man power and natural resources. Apart from the economic waste there are the political and social repercussions of a system which keeps the major portion of the masses of a country ill-fed, ill-clad, ill-housed, and ill-cared-for in every way. In a fast changing world such a state of affairs can be fraught with disastrous potentialities.

2. **The Problem.** The problem before the country therefore is how to make our agriculture more productive and our peasantry more prosperous. This is a problem of production as well as of distribution. So far as production is concerned we must create conditions under which our land, material resources and labour power are utilised in the most efficient manner. This will involve two things (*a*) The unit of cultivation must be expanded so that more scientific methods of production can be applied to agriculture. (*b*) The cultivator as the human factor must be allowed to work under conditions which give him maximum incentive to put forth his best into the land and to be free of all exploitation by any agency whatsoever. Moreover he must be saved from the uncertainties of fluctuations of national and international markets If conditions mentioned under (*b*) are created the problem of distribution will be automatically solved. Because, you cannot create proper incentive for work unless you can insure that the fruit of labour will adequately compensate the efforts and sacrifices undergone by those who have undertaken that labour. Measures ensuring economic security and stability will also ensure equitable distribution of the fruit of agriculture among the participants in the enterprise. The first and the most important step to achieve these ends is the reform of our land system.

3. **Reform of the Land System.** The reform of the land system may be regarded as the most fundamental prerequisite of agriculture in Pakistan. As we have already seen consolidation of holdings, better irrigation facilities, better seed, implements and manure etc., cannot produce results of any significance unless the size of the unit of cultivation is increased and the agricultural worker is ensured a reward in proportion to his effort.

Several alternatives may be considered in this connection :—

(*a*) Increasing the batai share of the tenant and giving him security of tenure through tenancy legislation.

(*b*) Commutation of produce rents into money rents.

(c) Elimination of landlords with a view to

(*i*) Land nationalisation.

(*ii*) Creation of peasant proprietorships.

(*iii*) Conferring proprietary rights on co-operatives.

4. **Improving the Share and Status of Tenants.** One suggestion is to increase the share of the tenant in the gross produce. At present, as we have seen, the most common practice is for the landlord to take one-half of the gross produce. The tenant has to meet all the costs of cultivation. The landlord pays the land revenue and also arranges for water. The details of these arrangements differ from place to place. But on the whole the main burden of costs falls on the tenant and by the time he has met these costs very little is left to compensate him and his family members for the work done during the year. The Punjab Farm Accounts relating to the years of depression show that frequently the peasant's expenditure exceeded his income during the year; hence the accumulation of debt and living on past capital hoarded in the form of gold ornaments etc. The reason why the cultivator continued to till the land under such adverse conditions is that for him there are no other alternative avenues of employment available. The bargaining power of the landlord is strong because of the great land hunger in the country. Under such conditions no amount of legislative protection will help the tenant. Whatever share is fixed by law will not be effective unless the working of the economic forces is modified. The same argument apolies to giving security of tenure etc., by legistation. Tenancy legislation has been tried in all the provinces of India and Pakistan but the protective laws give little protection to the tenant. They remain merely paper protection. As long as the landlord-tenant relation remains no amount of legistation will protect the tenant from the social, political and economic exploitation on the part of the landlord. The cultivator must be made into an independent self-reliant and self-respecting individual, for this he must be removed from the sphere of the landlord's domination.

Moreover, the reform of the land system is wanted not only to improve the position of the cultivator but also to create conditions under which more scientific methods of production can be applied to land. This is not possible unless the land s freed from the clutches of the landlord class who have shown no anxiety or ability to take to progressive agriculture.

5. **Commutation of Rents.** As regards the substitution of money rents for produce rents difficulties will arise in respect of fixing and enforcing different levels of rents in different localities and for different kinds of land. If rents are left to the forces of free competition there will be the danger of rack renting on account of the reasons explained in the previous section *i.e*, on account of the pressure of population on the soil and lack of alternative employment for the peasantry. Moreover, the element of risk in money rents is high where produce and prices are subject to wide fluctuation as in this country. In share tenancy the risks are shared between the landlord and tenant. If produce is less the loss is equally divided; if prices fall the share payable as rent is not affected because it is paid in kind. But if the landlord has already received his rent in money the whole of the loss due to smaller produce or lower prices has to be borne by the tenant And considering that his financial resources are meagre this loss may break his back and push him further into the mire of indebtedness. The best course, therefore, would be entirely to break the landlord-tenant link thus setting the tenant free to plan his operations as he likes. The landlord must be eliminated. But how? One view is that he should be expropriated without compensation, and the other view favours some sort of a compensation.

6. **Expropriation without Compensation.** The extreme view of expropriation of landlords without compensation has quite a number of supporters in Pakistan. Some time ago the West Punjab Kisan Conference passed a resolution to this effect. Those who favour expropriation argue in this way. Land is a free gift of nature to the people of a country and not to any particular class of the population. It should therefore be used for the benefit of all and not for the profit of the few. Property in land arose not as a result of effort on the part of its present owners, but as a result of forcible possession by the more aggressive at the expense of the more peace-loving classes of society. In the Indo-Pak, subconrinent land originally belonged to the community and in effect was occupied and cultivated by the peasants. The present system of lardlordism was imposed by the British in their own Imperial interests. What were previously revenue collectors on behalf of the state were awarded proprietary right in the lands which never belonged to them. This was done either in ignorance of the conditions in this part of the world and following the established system of landlordism in Great Britain, or it was done deliberately to create a new class of people on whose loyalty

British power in India could depend Some landlords were created in compensation for services done to British rule This class was not only created but was maintained throughout the British period through awarding them special privileges The class did serve the purposes of the imperialist power with whose help it kept down all the progressive forces in the country With the coming in of freedom the land should again belong to the people—the tillers of the soil—who were dispossessed of their means of livelihood by the hand of a foreign power.

7. Necessity of Paying Compensation Historically speaking, there is much truth in this analysis of the situation But there are many practical and theoretical difficulties in the way of expropriation This point of view cuts at the very basis of the institution of private property as it exists to day It establishes the principle that private property is only justified in things which have been produced by the effort of the owners concerned This appears to be a fair principle But it should be consistently applied , unearned property and incomes take countless forms in the present society Moreover, there is so much overlapping between what is 'earned' and what is 'unearned' that it is difficult to draw a line Further, even the definitions of these terms cannot be clearly stated Property appreciates due to expansion of a town, political developments, building of a railway, a road, a canal, change in fashions etc An unearned increment may arise or an unearned decrement may also arise How will you balance the two? Some profits may be earned by two different individuals under different conditions not easy to distinguish One man invests in a factory, another in a piece of land The means of both the investments were earned but fruit of investment comes from different sources Some landlords may have taken interest in improving their lands, others may not have contributed anything to its fertility Whom should you regard as a parasite when expropriating? If both, it will be unjust, if the latter, then you are not applying expropriation uniformly. Distinctions between landlords will be impracticable and treating them unformly will be inequitable Short of a complete revolution in our ideas of social organization expropriation will neither be just nor practicable

Then why not have a complete revolution in our ideas of social organization? This point of view is at least consistent. The question is what kind of a revolution do you want?

The first objection to these recommendations is that estates up to 150 acres irrigated and 450 acres unirrigated have been left untouched. The Committee is conscious of the fact that "the area suggested by us is larger than the area susceptible of direct cultivation by an arveage sized family of peasant proprietors." But they have borne in mind the fact that certain forms of cultivation *e. g.* fruit gardens, require larger areas, that a farm of 150 acres is not too large if mechanised forms of exploitation are introduced; and that in any case the operations of the laws of inheritance would reduce such a farm to very much smaller proportion within one generation.

The chief *raison de etre* of abolishing large estates is to get rid of the present inefficient and oppressive system of tenancy farming. If this has to be done the limit should not go beyond 30 acres for irrigated land and say 75 acres for *barani* land. Thus on the average the limit may be taken to be 50 acres of land. Garden plots may be made exceptions after due investigation. As regards mechanical farming this should be encouraged under the co-operative system, rather than the system of large landed estates, owned by individuals. Further, to wait for the operation of the law of inheritance to set right present injustices will mean shelving a problem which needs immediate solution. We would, therefore, recommend that all ownerships over and above 30 acres in the case of irrigated land and 75 acres in the case of *barani* land my be acquired by the state for the purpose of passing them over to the actual tillers of the soil. Local modifications, however, may be made to suit local conditions. On the average, therefore, we assume the limit of acquisition to be above 50 acres.

Now as regards the multiples suggested by the Committee they range from 3 to 6 times the annual yield. The multiple of 6 is to be applied up to 1,500 acres. In West Pakistan, as is admitted by the Committee, there are very few very large landed estates. A vast majority of them, therefore, will fall within the first category and will have to be paid six times the annual yield as compensation. This can be easily shown with the help of the data available in the report of the Committee themselves.

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(1) Report p. 32
(2) *Ibd.*

Thus, according to the Committee, land revenue per acre in colony areas comes to Rs. 5 and for unirrigated lands Rs. 1¼. We may take the average at about Rs. 3½ per acre. On this basis an owner of 1500 acres would pay roughty about Rs. 5,000 According to statistics given by the Committee[1] there are only 25 persons who pay Rs. 5,000 and over as land revenue and they pay only Rs. 2,29,713 in all. On the above basis this would represent an area only 65,632 acres out of about 76 lakh acres which fall in the category of 50 acres and more. This means that the calculation to be realistic will have to be made on the basis of six times the land revenue.

As regards the annual yield in irrigated areas of colony districts in which most of the large landed estates are situated this is not less than Rs. 200 per acre at the current pricee.

9. **The Burden of Compensation.** Now let us calculate the area that will have to be acquired in each of the provinces of Western Pakistan. The total number of landowners in the West Pnujab has been estimated at 13·5 lakhs out of which 13·1 lakhs own 50 acres or more. About 40,000 own more than 50 acres each. These people own 76 lakh acres of land in all. In Sind 80% of the cultivated area *i.e.*, 42 lakh acres is owned by large landlords. In N.W.F.P. large estates come to about 12 lakh acres. About Baluchistan detailed figures are not available but the total cultivated area is about 3·3 lakh acres. Except in the Quetta tehsil in which only 48% of the area is cultivated by peasent proprietors in other tehsils this percentage varies between 61 to 84. We may, therefore; ignore Baluchistan altogether. East Pakistan has its peculiar problems of tenure which are being tackled already, as we shall see presenly. The main problem of acquisition of landed estates, therefore, relates to the three provinces, the Punjab, N.W.F.P. and Sind. The following table gives an estimate of probable cost of acquisition in these provinces.

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(1) Report: League Agrarian Reform Committee, p. 13.

Province.	Area to be acquired lakh acres.	Total cost at 6 times the annual yield at Rs. 200 per acres Rs. lakhs.	Payment in cash 20% of the total Rs. lakhs.	Payment in bonds at 4% after 20 years Rs. lakhs.
Punjab ...	76	912,00	182,40	1313,28
N.W.P.P. ...	12	144,00	28,80	207,86
Sind ...	42	504,00	100,80	725,76
Total ...	130	1560,00	312,00	2246,90

It will be seen that the total cost involved will be Rs. 1560 crores of which Rs. 312 crores will have to be paid in cash if the suggestion in this respect of the Agrarian Reform Committee is accepted. This burden is obviously beyond the paying capacity of either the state or the cultivators.

10. Land Reform in East Pakistan. The East Bengal the State Acquisition and Tenancy Reform Bill, as we have already seen, provides for acquiring on the part of the state all rent receiving interests over and above one hundred standard bighas of land. The compensation is to be paid on the basis of a sliding scale inversely related to the net incomes earned by the rent receivers, clause 19 of the Act provides for compensation, ranging from 10 times the net incomes not exceeding Rs. 500 to twice the net income exceeding Rupees one lakh.

The compensation may be paid either in cash or in bonds or partly in cash and partly in bonds. The bonds will be non-negotiable and payable in not more than 40 annual instalments and will carry interest at three percent per annum.

The Act is a welcome initiative on the part of a province of Pakistan for the solution of a long standing problem. The Act, however, does not entirely solve the problems of land tenure. Firstly it leaves untouched rent receiving interests below 100 standard bighas. Secondly it creates a system of state landlordism which is not entirely free of defects. The rents will be paid to the state. What will be the level of those rents? If they are as high as paid to the private rent receivers the cultivator gets no relief. If the state only charges land

revenue at the usual rates than the ownership might as well be conferred on the cultivators. Probably the rents will be fixed between these limits. But the state will have to give concesi sions and remiosions in periods of stress and in the net there may be little gain to the exchequer. Thirdly, the compensation may remain a drag on the provincial finances for long time. It would be better if the proprietory rights are conferred on the actuial cultivators and the compensation to be paid to the rent receivers is realised from the cultivators on a suitable system of instalments. Money thus realised should be used in meeting the liabilities incurred in connection with payment of compensation to the rent receiving interests. Moreover, the acquisition should take place of all rent receiving interests with suitable exceptions in the case of orphans, widows etc for a temporary period-say of a generation.

11. Experience of Europeon Countries. Land reforms in the various countries have taken two main forms *i.e.*, the conservative and the radical. The former kind of measures have mainly aimed at consolidation of holdings, land reclamation, provision of greater credit facilities, regulation of landlord-tenant relations. We have seen that such measures have been tried in the Indo-Pakistan sub-continent in the past without solving our basic problems. Other countries which have attempted such policies are the United States of America, the United Kingdom, Germany. France. Netherlands, Denmark and Scandanavian countries. These countries, however, are mainly Industrial in character and their agriculture in most cases is of secondary importance.

Another group of countries have chosen the radical reform method. Such are the countries of the Central and Eastern Europe including the Soviet Union and some Baltic states. The main principal followed here is that the land should belong to the tiliers of the soil. Large estates have been expropriated with or without compensation. The land thus released has been distributed among landless labourers and cultivators of dwarf holdings. Measures have been moderate in Hungary and Bulgaria; more radical in post-war Finland, Poland, Czechoslovakia, Rumania and Yugoslavia; and most radical in Baltic states of Estonia, Latvia and Lithuania.

As regards compensation where landed estates have been acquired from the big landowners full or part compensation has beed paid, except where (*e.g.*, Czechoslovakia and Bulgaria) estates were owned by alien interests or belonged to those who

had acted in an anti-national or anti-social manner during the last war. In some countries (*e g.*, Roumania) the compensation was paid by the state. In others (*e.g.*, Hungary) compensation was later scaled down on account of the inability of the peasants to pay due to Depression.

12. Land Reform in India. Abolition of Zamindari Bills have been passed in India in the Provinces of Bihar, Madras, and U. P. Bills with similar aims are also under consideration in West Bengal, Assam and C. P. and Barar.

The chief objects of these Bills are : (*a*) Abolition of Permanent Settlement wherever it exists, (*b*) acquisition of interests of Zamindars, inamdars etc., on payment of a fair and equitable compensation, (c) introduction of ryotwari system in all such cases, which is practically peasant proprietorship.

As regards the basis of compensation in Madras the basis is one-third the " reduced rent " or in other words one-third of the (converted) ryotwari assessment which is taken as the basic 'annual' sum. In the Bihar and the Assam Bills the basis is the net 'annual income', the various income groups being divided into a number of slabs according to the size of the income. In the U. P. Bill the basis of compensation is the " net assets."

The minimum and maximum rates of compensation in Bihar are 12¼ to 30 times the 'annual income' the multiple varying inversely with the size of the income as calassfied into 12 slabs varying from Rs. 500 to over Rs. 1,00,000. In Madras the minimum and the maximu m rates vary from 3 to 20 times the net income according to the latter's size. There are only six slabs in Madras extending from idcomes of less than Rs. 1000 to those over to Rs. 1,00,000. The Madras Bill is more liberal in compensation while the Bihar Bill has a more progressive scale of rates. The U. P. Bill provides compensation at eight times the " net assets." Since this will not yield enough income to the smaller revenue payers the latter are to be paid a rahabilitation grant, ranging from 2 to 20 times the net assets.

It is interesting to study the financial implications of these measures and also the methods of payments to be adopted and the parties who have to meet these liabilities. The Central Government of India has categorically refused to bear the financial burden involved. The provincial Governments have to stand on their own legs in this matter.

The total amount to be paid has been estimated at Rs. 150 crores in Bihar. This was to be spread over 50 equal instalments. The Governor-General thought this huge disbursement of money by the provincial government might lead to inflation and referred the bill back to the Assembly. The Governor-General in his message sought to limit the acquisition of Zamindaris to the extent to which it was practicable for provincial Government to pay compensation in cash.

The total liability in Madras will be only Rs. 12 crores on about 128 lakh acres of land. The measure it is estimated will add Rs. 56 lakhs annually to provincial revenues; because it also aims at abolition of the Permanent Settlement. Payment will be made partly in cash and partly in government guaranteed bonds bearing 2½% interest.

In both these provinces the compensation is to be met entirely by the provincial government which will acquire the proprietary rights. The cultivators will only have occupancy rights of the ryotwari kind.

The U. P. Bill provides that the compensation ultimately has to be paid in the main by the cultivators—preferably the present tenants who have been asked to make voluntary contributions will be entiled to transferable rights in their holdings. In addition such tenants will be given 50% reduction in their existing rents to be paid as land revenue. It is claimed that this method "will overcome financial and legal difficulties, provide finance for the speedy abolition of Zamindari, check inflation and utilise the peasant's savings for a productive purpose."

The U. P. Bill further provides that rights in the village commons should vest in the village community on behalf of which the village Panchayat will act. The Panchayat has been given wide powers of management. Provision is also made for prevention of holdings becoming uneconomic or becoming too large again. No one will be able to acquire or hold more than 30 acres of land. To prevent the re-emergence of the tenant-landlord system the right of lettings has been restricted to disabled persons *e.g.*, minors, widows military personnel on duty and persons suffering from physical or mental disability. Thus the principle that land should belong to those who cultivate it is recognised as far as practicable.

13. **Land Reform in Japan.** A few words may also be said about the programme of land reform which is being

introduced in Japan by the S. C. A. P. which again aims at transferring landownership to farmers who actually cultivate the soil. The Japanese farmer has been a victim of an obnoxious system of land tenure since long; 70% of the cultivated area was taken on rent by the peasants Rack renting was very common. The S. C. A P. has introduced a programme according to which land is purchased by the Japanese Government and is resold to tenants. Preference has been given to farmers who were working as tenants in November 1945. The payment is to be made in instalments spread over a period of 24 years at 3·2% interest. For the convenience of the tenants it has been provided that the annual payment should not be more than one-third of gross income. Concessions are given in case of fall in prices and of crop failures. Under this scheme 4·5 million acres of cultivated land has been sold to farmers. In addition about 2·3 lakh acres of pasture land has also been sold.

14. Lessons from Foreign Experience. It will be seen that the principle that large landed estates must be abolished and land rights conferred on the actual tiller of the soil has been widely accepted even in countries not favouring communism in its extreme form. On the other hand the main trend has been in favour of compensating expropriated landowners. The basis of compensation and the form in which it is to be paid has, however, varied. Mostly compensation has been related to the net assets or net annual income or rent of the land. The multiples suggested have varied inversely with the amount of the net income of the owner. Payment has been made partly in cash and partly in bonds carrying reasonable rates of interest and redeemable over a fairly long period of time. The ultimate payment is made mostly by the beneficiaries, the state only bearing the financial burden during the period of transition.

15. Suggestions for Pakistan. In the light of the experience of other countries we are now in a position to devise some practical method of compensating the landlords in Pakistan. The compensation :

(*a*) Must be fairly high, especially for comparatively small owners, to enable the landlords to maintain their habitual standard of living during the period of their adjustment to new conditions ;

(*b*) Should not be of a prohibitively high amount beyond the paying capacity of those who have ultimately to bear the financial burden ;

(c) Should be paid in such a way as not to lead to inflationary conditions. In consequence, the whole transaction should be spread over a number of years and the payment should preferably be in kind rather than in money. If in the form of money, it should come out of the current savings of the people :

(d) Safeguards should be provided against the burden of this liability increasing through changes in prices of the agricultural produce.

In U.P. 8 times the net assets had been thought a reasonable compensation to the landlords. Under the *batai* system the rent paid varies from one-third to one-half of the gross produce. It would be reasonable, therefore, to fix the rental at half the gross produce of the soil. Actually, however, the tenants pay more than this, due to various unrecognised charges extracted from them by the landlord. Assuming, however, that fifty per cent of gross produce covers the costs of production of crops, including the wages of the cultivators, net assets may be taken as half the gross produce of land. If the tenant, therefore, pays to the landlord four times the gross produce of the land he cultivates he should be deemed to have cleared his liabilities. The Muslim League Land Reform Committee suggested the multiple of from 3 to 6 times the gross annual produce. An average of four times the gross produce, therefore, will not be unreasonable even from their point of view. For the convenience of the cultivator, however, it may be provided that instead of clearing his liability over a period of eight years by paying half the gross produce to the landlord every year, he should be allowed to clear it in a period of 16 years by paying one-quarter of his gross produce every year. Those, however, who wish to clear it in a shoter period may be given concession in the form of a discount say at the rate of 4% for every year the period of payment has been reduced. Nor to take away the incentive for future improvements in production the produce quota should be determined in terms of the chief staple of the farms concerned on the basis of the average produce of five years previous to the year in which this settlement is made. After this share is fixed in kind, the actual payment should be made either in kind or in money equivalent of the amount of the produce fixed at current prices at harvest times. For instance, suppose the payable quota of a certain tenant is fixed at 25 maunds of wheat a year and the harvest price of wheat in the locality is Rs. 10 a maund. The cultivator may either pay in the form of 25 maunds of the

good average quality wheat or in the form of its current value *i.e.*, Rs. 250. The landlord may demand, if he likes, payment in money value of the standard wheat though he cannot demand that he must be paid in wheat of a particular quality. This latter demand is likely to create practical difficulties on account of difference of opinions about the standard of wheat offered.

It is quite true that if these transactions are left to individual peasants *vis a vis* individual landlords, there are likely to be many irritations and disputes about the prices and standard of quality of the produce. But if the transactions are made through co-operative societies of the peasantry, as we shall suggest in a later section, the occasions for disputes can be considerably reduced.

This method of compensation will be automatic, will avoid legal complications and inflationary consequences. Moreover it will make manageable, transactions, which in terms of money would run into hundreds of crores. The state machinery, however, will have to help initially in matters of fixing standard quotas of produce to be paid. The state may also have to incur some financial liabilities by way of giving rehabilitation grants to smaller landlords whose rents are not enough to ensure their usual standard of living. These grants, however, should be made anly to really deserving cases on the basis of objectively determined principles.

By this method the land will be transferred from the present owners to the actual cultivators of the land. But this transfer of ownership will only remove one barrier in the way of progressive agriculture. It will not create positive conditions for such agriculture. For this purpose a reorganisation of the whole system of production will be necessary.

Some people suggest that, instead of creating peasant proprietorships by this method, the Government may acquire the land and retain proprietary rights in its own hands. We must thus examine the merits of this suggestion *i.e.*, nationalisation of land.

16. Nationalisation of Land. One view is that this land (in fact all land) should be nationalised and thus private property in land should be altogether abolished. If this is done there are two alternatives to the state as owner of the land ; (*i*) Settle on it tenants more or less on the same basis as under private landlords. The tenants will pay half the gross produce to the state. Under this system the position of the tenant will be little better than what it is now and the main *raison de etre* of eliminating private landlords will be defeated. Probably the

state will be a little generous and more helpful and less oppressive. But substantially the position will not be different, especially when the functions of the state will be carried out by petty officials. New avenues of corruption are likely to be opened under such a system.

The state on the other hand may not rent out the land to tenants. It may establish state farms or collective farms on which agricultural operations will be carried out by modern large-scale and mechanized methods, the cultivators being reduced to the level of wage earners on such farms. Adoption of such a system on a large scale will create many difficulties. In fact it is doubtful if it is a practical proposition at the present stage of our economic development. Mechanized farming will require agricultural machinery on a scale which is hardly available to Pakistan at present, even if the problem of the means of purchasing such machinery is solved. Even that is a big financial problem. Moreover, even if such mechanical equipment is available there will be the problem of technically trained labour to operate such machines, to repair them and to look after them. Then there will be the problem of power. Our coal and oil resources are already limited. Over and above all, these mechanical methods are bound to economise labour and throw out of employment large masses of our agriculturists who are now engaged in cultivation. Mechanized large-scale agriculture thus cannot be adopted in Pakistan until the character of our whole economy is changed through wide-spread industrial development.

17. **Creation of Peasant Proprietorships.** There are about 16 lakh owners of land in West Punjab of whom the number of those who own 50 acres or more is only about 1 lakh *i.e.*, about 6% of the total. Now if land is nationalised you will have to disposess not one lakh but 16 lakhs of owners. This might create wide-spread political discontent in the province. In other provinces perhaps the number of peasant propritors is not so large but they are in fair numbers. If these fifteen lakh owners are to remain in possession of their plots there is no point in nationalising the land purchased from the larger owners. The best thing would be to distribute this land among the cultivators thus helping them to make their unit of cultivation larger. Or the present tenants cultivating such lands, as suggested above, may be given proprietary rights in them. And if there is land in excess of what a family can manage, it may be allotted to new cultivators from among the refugees. By this method the refugee problem can be satisfactorily solved.

18. Village Co-operatives. Merely acquiring of proprietary rights from the landlords and conferring them on the actual cultivators of the soil, as already noted, will not solve our agricultural problem. In fact this might perpetuate the system of backward and inefficient agricultural production. The average holding will still be quite small and in most cases spread out in small fragments. The first step would be to bring all the area belonging to one family in one place in a consolidated form. The next step would be to create co-operative villages or groups of villages under one co-operative control, if they are too small in size. All the owners of the village will form themselves into a co-operative society for the purpose of better living and better agriculture. It will be entirely the show of the villagers themselves, the officials only acting as guides in initial stages. The society will be controlled by an elected Managing Committee with a trained co-operator as a paid Secretary. It is understood that at the moment our people in the villages do not have enough co-operative spirit and technical knowledge to run co-operative villages successfully. It is the function of the Government to train co-operative officials and non-officials on a large scale and supply them to the villages. Inducements can be devised to encourage capable villagers to get Co-operative training in Government institutions. We are glad to note that the Pakistan Government is aiming at establishing two institutions for training of Co-operators in Pakistan, one in the Eastern and the other in the Western Pakistan. The number of such institutions should be gradually increased until every district town should have a school for imparting short course of training in the fundamentals of the practical application to our villages of the principle of Co-operation.

The ultimate aim of the Co-operative villages should be to organise the entire life of the village on Co-operative basis. At the final stage village Co operatives may attain their full-fledged character, where land is owned not by individuals but the Co-operative Village and reward of agricultural labour is the whole of the residual production after necessary expenses have been met and reserve fund provided and the contribution to the state made. But the Co-operative village need not emerge as a full-fledged entity in earlier stages. The Co-operative principle can be applied gradually from function to function in accordance with the necessities and limitations of the local conditions and traditions. As long as the direction is correctly conceived and pursued, there is no danger of ending in a blind alley. The start can be made by applying the Co-operative principle to the

consolidation of holdings, supply of water, purchase of seeds, implements and manure for the farm, supplying financial aid and marketing of produce. Gradually cultivation itself may be taken up collectively and land resources pooled for the application of mechancial methods. Side by side the co-operative principle should be applied to subsidiary and cottage industries and general improvement of the village by giving medical aid, education, amusement etc. The village in this way, can become a self-regulated and self operative unit. This will considerably lighten the burden of the district, provincial and central administrations. In fact the village co-operative can be utilized for carrying out national purposes and policies as framed by higher units of administration. This will be true economic and prolitical democracy. This dream can become a reality provided the over-zealous do not aim at short cuts and quick results. The programme should be clearly visualised, but it should be implemented through well-thought out and predetermined stages, allowance being made for the exigencies of the actual facts of the situation in each locality.

CHAPTER VII

MARKETING OF AGRICULTURAL PRODUCE

1. **Introduction**. In a self-sufficient village economy, as it prevailed in the areas now Pakistan a hundred years ago, the problem of marketing was not so important as it is today. Then, all that was produced was consumed within the village or in the immediate neighbourhood. Now the produce of the village finds consumers in distant places, not only within the country itself, but also in the outside world. With the sale proceeds of the surplus produce of the village—of foodgrains cotton, jute sugarcane, oil seeds, etc.—are purchased goods produced in distant parts of the country and the world. Even now, however. most of the food requirements of the village are met from within. The surplus avallable, however, is greater in the case of non-food or commercial crops like cotton and jute. These are converted into money, if not for other purposes at least to make land revenue payment to the Government.

The economic position of the peasant thus does not merely depend upon the total amount of production that he can secure from his land, but also on the money value of the surplus that he has to sell in the market. He has little control over the prices which prevail, because they are determined by the broad factors of supply and demand operating in the country and in many cases in the word at large. His costs of production also may be regarded as more or less fixed. Even then his sale proceeds can be increased by better handling of the produce and reducing to the minimum the portion going to the various intermediaries between him and the ultimate consumer of his produce. This can be done by saving him from the consequences of the various handicaps from which the farmer suffers either because of the inherent character of agriculture as a profession or from the peculiar circumstances under which he works in Pakistan. Agriculturists in all countries are handicapped in certain respects. The seasonal and scattered character of their operations, the great role that nature plays in making it a success, the inelasticity of demand for agricultural products, raise many difficulties of organization and make adjust-

ments between supply and demand uncertain. In addition to these, our peasant is handicapped by his illiteracy, ignorance, conservatism, small unit ... nancial aid defective means of ... a host of other individual and ... ter we shall study the nature of some of the important handicaps from which our agriculturist suffers as a seller of his produce and then take note of the various remedies either suggested from time to time or actually adopted in prepartition days to improve his position. To quote the agricultural Commission, "until he (the peasant) realizes that as a seller of prduce, he must study the art of sale, either as an individual or through combination with other producers, it is inevitable that he should come off second best in his contest with the highly specialized knowledge, and the vastly superior resources of those who purchase his produce"[1]

2 Essentials of good Marketing In order that the produce may be sold to the best advantage of the producer, several conditions must be present In the first place, the quality of the produce should be good Agricultutal commodities cannot be produced in a standardized form as manufacturers can be But quality can be ensured to some extent by using the best available seed ; by adopting efficient and clean methods of cultivating and harvesting it by grading and standardizing the product and by storing it, in good storage places to prevent deterioration. This is the first essential of good marketing If good and bad qualities of the produce are mixed, as has been the case in Pakistan, the reputation of the whole produce suffers and price obtained is of the standard of the worse rather than of the better quality.

The second [illegible] of the seller,

... peasant should have ... quirements of land ... due from him or arrangements should exist for him to get money on credit at reasonable rates of interest. If the getting of credit throws him into the clutches of a rapacious money-lender which it too often did in prepartion days,—the remedy may be worse than the disease.

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1 Royal Agricultural Commission, Report, p. 382

The third essential of good marketing is the existence of good means of communications and transport. The cultivator-seller should be in touch with the movoments of prices in the markets to enable him to take advantage of favourable prices. The villager should have convenient acces to the market. The roads should be well planned and well kept or there may be waterways facilities. If the transport facilities are absent, the peasant would prefer selling to itinerant purchasers or village banias as he did—before partition—instead of carting his produce to the market for better returns.

Finally, there should be well conducted markets at convenient distances from the producing villages. It is necessary that these makets should be properly regulated and be under impartial supervision and control. If the market practices are arbitrary, the cultivator will lose confidence in them and would prefer to sell his produce in his own village on comparatively unfavourable terms[1]. Proper access to markets also implies the absence of transit charges like octroi, terminal taxes, etc., which serve as discouragements to the cultivator-seller. Marketing in Pakistan lacks almost all these essentials in varying degrees.

3. **Produce Sold in Villages:** It is difficult to say what proportion of the total produce, on the average, is sold by the Indian cultivator and what is kept for his household requirements Obviously, the proportion will differ in different localities and with different agriculturists according to their economic strength and the nature of the commodity concerned. The "surplus" sold will be greater in the case of commercial crops than the food crops. The more prosperous cultivators may sell a larger proportion of their total produce in the end, though they may sell a small proportion of their total surplus at harvest time on account of their greater power to wait. In Bengal it has been estimated that normally 54 per cent of the total rice crop is retained by the producer and 46 per cent is sold.[2] The average cultivator, one may say, produces mostly for his family needs and sells only what is necessary to meet his monetary obligations to the Government and the money-lender and for

1. "It has, we think, been established that when the cultivator is in a position to dispose of his produce in a market, however limited its scope and badly organised its character, he obtains a much better price for it, when the cost of transport is taken into account, than when he disposes it of in his own village." Agricultural Commission Report, p. 388.
2. *Marketing of Rice in India and Burma*, p. 492.

sundry household expenses. [illegible] jab district like Lyallpur, 23 9 per [illegible] no sales.[1]

There is, however, more definite information as to the proportion of the produce sold in the village and that taken to the market by the cultivator. One investagor[2] estimated that in pre-partition Punjab 60 per cent of wheat, 35 per cent of cotton and 70 per cent of oil-seeds were sold in the villages or village markets [1] In Bengal before partition 58 per cent of oil-seeds and 90 per cent of jute was sold in the villages. "The proportion of produce sold in the markets diminishes as cultivators are debt-ridden or carry on subsistence farming in tiny holdings. In Attock district of the Punjab 98 '6 per cent of the cultivators dispose of their surplus wheat to local banias who happen to be their *sahukars* also"[3] The proportion of produce sold in the outside markets also diminishes where the means of communication and transport are not adequately developed.

The produce sold in the village (apart from the portion that is directly sold to non-agriculurist consumers living in the same village) was sold to various kinds of middlemen before partition through whom it ultimately reached the larger markets and distant consuming centres These middlemen appeared in the form of the village bania (who was usually the village shop keeper and also the money-lender to the peasant) or various itinerant[4] "beoparis" either purchasing on their own account or as agents of some *arhtiya* in the secondary town market. But where the money-lender had his grip over the peasant, the latter was not a free agent to dispose of his produce as he liked. The debtor usually had to sell it to his creditor on the latter's terms. In any case, when the produce was sold in the village, as the Agricultural Commission pointed out, the cultivator obtained much less favourable terms than he did if he carted it to the market, however badly organised the latter might have been But to take it to the market he requires means of carting and good roads.

4 Transportation to Markets. One of the reasons why only a small proportion of the produce is taken by the cultivator to the market is the bad condition of roads. This also accounts

1 Mukerjee *Economic Problems of Modern India*, Vol I, p 299
2 [illegible] 96
3 [illegible]
4 [illegible] provinces B[illegible]

for the variety of itinerant grain dealers and carriers that existed in those days. " Communications from the field to the village and from village to the mandi are often extremely poor and defective. Bad roads, lanes and tracks connecting villages with the markets not only add to the cost of transportation and aggravate the strain on bullocks and other pack animals, but also lead to the multiplication of small dealers and intermediaries They also restrict markets by hindering cheap and rapid movement of agricultural produce."[1] The difficulties were greater in hill districts where the cultivator was often at the mercy of the grain dealer who alone could command enough animal power to undertake the transport of produce.

As regards means of conveyance, the produce is carried to the market in bullock or camel carts, on pack animals, such as camels, ponies, buffaloes and donkeys or in head loads. Different methods are used according to the circumstances of different localities. River transport has declined in the Punjab, but is still of considerable importance in Eastern Bengal In West Pakistan the cart and pack animals are predominantly used. Motor transport has also become important in some localities.

5. **Sale in the Market**:—Markets may be organized or unorganized. The unorganized markets are more or less of a primitive character. There are no set customs or rules of procedure as regards sales and settlement of accounts. There are no permanent functionaries. They are small mandis in which though the *arhtiya* may be found but he is hardly a wholesale dealer. He is rather the primary distributor who simply passes on the produce to the bigger *arhtiya* in the larger mandi. He is often financed by the latter.

Organized markets had already developed before partition, in localities where staple products like wheat, cotton, sugarcane and jute were largely grown. In such places specialization in crops had taken place and choice of crops was governed less by custom and household needs and more by the prevailing prices in the distant markets. This was especially the case in areas where transport and irrigation facilities had broken up the self-sufficiency of the village. In these bigger mandis the wholesale *arhtiya* had made his appearance and facilitated grain transactions. He often supplied capital to the village bania or beopari on the stipulation that the produce of the neighbourhood would reach him regularly at harvest time. He also acted as a commission

1. Mukerjee, *Economic Problems of Modern India*, Vol. I, p. 295.

agent of shroffs and big exporting firms in the cities, thus forming an indispensable link in the chain of middlemen between the cultivator and the shipper buyer.

The wholesale *arhtiya* in the market was also known as the *pakka arhtiya.* He should be distinguished from the *kachha arhtiya.* The *kachha arhtiya* acted as a commission agent for all sellers in the country-side including cultivators, village banias and beoparis and other itinerant carriers. The small mandi-dealers also often disposed of their produce through him. The *Pakka arhtiya* never dealt directly with the cultivator-seller. In addition to the *arhtiyas* there were other intermediaries called the "dalals" (brokers). Dalals were found in all the markets. Sometimes one set acted for the sellers and the other for the buyers In the majority of the markets, however, brokers operated in the interests of buyers only. It was not necessary to employ a broker but buyera generally did so to save themselves, time and bother. His real business was to put buyer and seller in touch.

The transactions in the market took place in the following manner: The beopari or the seller entrusted his goods to an *arhtiya* or 'dalal' dealing on behalf of a purchaser. Both the *arhtiyas* put their hands under a piece of cloth, towel, or handketchef and started catching one another's fingers under the same. The bargaining was usually in terms of annas, as there was generally no dispute about the rupee part of the price. The negotiations went on in this secret manner till they were called off owing to failure in arriving at an agreement, or a price was settled, and then the seller was informed of the price agreed upon. This was the usual practise. In some cases the produce was sold by open auction. In a very few mandis there were also co-operative shops which took the place of the *kachha arhtiya.* These were tried in the Lyallpur mandi, but did not prove a success due to various reasons to be noted later.

As soon as the deal had been effected, the *kachha arhtiya* paid cash to the seller, though usually he did not get the purchase price from the buyer (*pakka arhtiyas*) at once. Through the *arhtiya* the produce was passed on to the retailers for home consumption, to the mills for manufacturing purposes and to the expoers for external trode.[1]

6. Defecta of the Prepartition Syatem: The main defects of the system of marketing (especially as it prevalied

(1) Hussain; Marketing of Agricultural Produce in Northern India. P. 103,

befores partition in India) are : (*a*) Indifferent quality of the produce sold. (*b*) Inadequate facilities of transport and communication. (*c*) Multiplicity of intermediaries. (*d*) Lack of storage and warehousing facilities. (*e*) Fraudulent practices in the markets. We propose now to discuss each of these defects and also to take note of the various steps that have been taken by the Government to remedy each or some of them.

7. **Indifferent Quality of the Produce :** Our produce does not enjoy good reputation in the foreign markets, though things have improved in recent years. The low quality of the produce is due to a number of causes : (*i*) Indifferently selected seed. (*ii*) Natural calamities affecting the crops while growing, like too much or too little rains, pests and diseases, etc, (*iii*) Primitive methods of harvesting, which lead to mixing of dirt and stones with the grains. (*iv*) Lack of proper storage facilities in the village, which result in deterioration through exposure to rain, dirt and rats. (*v*) Deliberate deterioration at the various stages of marketing by damping, mixing, etc. (*vi*) Lack of standardization and grading of produce which does not distinguish between good, bad and indifferent qualities.

The agricultural departments have done useful work in introducing improved varieties of seed, though a very large fiejd has yet to be covered in this connection. The percentage of the total area under the various crops which is sown with improved seed varies from crop to crop. Taking all the crops together in the Indian sub continent it is still about 5 per cent of the total area sown. Some work also has been done to tackle the problem of pests and diseases. The methods of harvesting, however, remain as defective as ever and unless mechanization is introduced (which is impracticaple under the present conditions) they will remain the same. Storage facilities can be introduced either by individual or co-operative effort, but little has been done so far. The trouble is that the cultivator cannot keep the produce on his hand for a long time, due to his financial weakness and hence troubling about constructing elaborate means of storage does not seem worthwhile to him. Conscious deterioration of quality is partly due to pure dishonesty, but partly because the standard of quality for exports is fixed low and better quality produce does not command proportionately better prices. The seller, therefore, reduces better quality products to the given standard. In the case of cotton, the Government of Pakistan has taken definite steps to prevent deterioration of quality in certain cotton-

growing areas. In 1923, the Cotton Transport Act was passed in India which enabled any local Government to notify definite areas of cotton for protection and to prevent the importation of cotton from outside the area except under licence. The object was to prevent inferior outside cotton to get mixed with the superior variety of the area protected. The Act produced good results. To discourage adulteration, another Act was passed in 1925. This was the Cotton Ginning and Pressing

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each case—should go a long way to prevent deterioration of other agricultural products. Measures against adulteration of food do exist in various local areas, but they have not proved very effective; moreover, they only aim at protecting the home consumer.

As regards grading and standardisation, definite work is being done since the passing of the 'Agricultural Produce (Grading and Marking) Act" of 1937. Under this Act, licences are issued to reliable merchants authorizing them to grade agricultural produce under the close supervision of the marketing staff appointed by the Government. Such produce is then placed in the market under the label and seal of "AGMARK." At first grapes, oranges, tobacco, eggs, hides and skins were graded in this way. Later on other commodities like ghee, flour rice, apples and lac were added to the list and more can be added as need arises. During 1942 in India more than Rs. 241 lakhs worth of produce was sold under the "AGMARK" as compared with Rs 146 lakhs in 1941. Present statistics about Pakistan are not available.

8. **Transport Facilities and Marketing Intelligence:** "In spite of the developments of the last half century," wrote the Royal Agricultural Commission, "India must still be regarded as a backward country in respect both of railways and roads." This is more true today of Pakistan than of India of those days, as we shall see. Moreover, freight rates in Pakistan as in India are high, which definitely discourage their use for transportation of Agricultural produce, which usually has small value with a large bulk. A more sympathetic freight policy, cold storage facilities, introduction of standard containers for small parcels and packages, can considerably enhance their utility.

As regards roads unmetalled roads and village tracks are full of dust in the summer and are transformed into pools of muddy water and swamps in the rainy season. No wonder the villager prefers selling his produce in the village. Lack of development of roads have been mostly due to lack of funds. A change of policy is necessary. So far roads have been developed out of revenues only. Loans should be raised by the Provincial Governments for this purpose. A proper co-ordination of road and railway services is necessory to avoid wasteful competition. As regards waterways, where they can be revived or improved, it should be done provided they will result in appreciably reducing cost of transport, or where no alternative means of transport are available.

As regards marketting intelligence, daily market prices of various commodities are broadcast from the various Pakistan Radio stations for the information of the people. but the average villager still depends upon hearsay for his information in this connection. Advance in this connection can be made only with the advancement of general education and better development of the means of communication.

9. Multiplicity of Intermediaries. Under the marketing system as it prevailed before partition there was a large number of intermediareis between the producer and the consumer.

The middelmen the cultivator and the consumer were :

1 Beopari—2 Kachha Arhtiya—3 Dalal—4 Pakka Arhtiya—5 Wholesaler—6 Retailer

Certain people regarded some of these middlemen as superfluous. It was suggested for instance. that the dalal was unnecessary. If the cultivator took his produce to the market himself the beopari could also be eliminated. The kachha arhtiya could be displaced by the co-operative shop. The pakka arhatya and the wholesaler were frequently one person. By marketing through the village co-operative sale societies the consumer could be approached directly. The Agricultural commission, however advised caution in such reforms " Public opinion " they wrote. " is invariably watchful and is often suspicious of the middleman ... It is clear, however. that the public opinion is not fully informed on the costs and risks incidental to the business of distribution in modern conditions. We deprecate easy

: that every ill from which the cultivator
ble to the existence of hordes of rapacious and
. Such statements disturb confidence,
ng attention from faults in the system of marketing
of being remedied or removed."[1] According
. "bad communications and chaotic conditions
. a superfluity of middlemen ..and the
means of removing unnecessary middlemen are
good roads and the establishment of a sufficient
-regulated markets easy of access to the cul-

o another authority, "in the present unorganised
and marketing the itinerant beopari is a
should not be condemned off hand, just like
unless and untill new and better marketing
to the door of every peasant."[3] What are
better marketing methods? Co-operative
most hopeful and useful of all. The problem
Marketing we shall consider presently.

ge and Warehousing Facilities: Due to the
reserves the cultivator sells his produce within
harvesting it. The only produce that he stores
time is what he keeps for his family consumption
therefore, does not think worth his while
iture on expensive storage structures. He
ly in huge earthen containers, in pots and sacks
in *khattis* or pits where water level is high.
exposes the produce to white ants, rats
n larger markets, agricultural produce is stored
Such produce may be sold several times
y taken out. Against it (in larger mandis)
advances were offered by shroffs and joint
facilities no longer exist. But even in large
stored for longer than about eight months.
longer periods, the means of storage should be
s and the *kothas*. In that case the practice
from the banks against the security of stored
widely prevalent as the banking facilities
, therefore, to have properly construct-
e more important mandis and railway stations

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For such constructions Government assistance and initiative are necessary. In the villages, godowns may be constructed by co-operative societies to give facilities for storage to the members and enable them to keep their produce safe, until the favourable time for selling. The co-operative society can combine the function of marketing finance with the provision of storage facilities.

11. Fraudulent Practices in the Markets: A common defect of the system of marketing as it prevailed before partition was the existence of a number of practices, even in well-organized markets, which defrauded the cultivator-seller of a part of his sale price. Chief of such practices were: (*i*) the *arhtiya* and the dalal acting for both buyer and seller (*ii*) settlement of price under cover, (*iii*) false weighments, and (*iv*) a variety of charges.

(*i*) *Some agents acted for buyers and sellers both and were called kachha pakka arhtiyas.* [1] In some cases the same person acted as a dalal[2] for both parties, getting commission from both sides. Under such conditions, the interests of the cultivator were bound to suffer. The mandi agent naturally acted in the interest of the buyer, who belonged to his own class and with whom he had constant dealings rather than in the interest of the cultivator who visited the mandi only once or twice a year.

(*ii*) *Settlement of price under cover.*—We have seen how the *arhtiyas* representing respectively the buyer and the seller negotiated the price. The cultivator was kept in the dark until after the settlement of the price. Naturally, this did not inspire confidence in the peasant, especially when both the *arhtiyas* belonged to the mandi and usually to the same community and class. Moreover, this method was open to abuses. Such practices should not be allowed to reappear.

(*iii*) *False weighments.*—There was a large variety of weights and measures prevalent in the country. In the same market sometimes two sets of weights were used, one for buying and another for selling. In 1913-14, a Weight and Measures Committee recommended standardization. The Agricultural Commission, while recognizing the difficulties of reform, due to diversity of local customs, recommended that an All-India inquiry should be made again and general principles laid down for the provincial governments to adhere to, to reform this

1. Hussain, op, cit., p. 104.
2. *Ibid*, p. 280.

evil. It was widely realised that introduction of standard measures was a reform which was urgently wanted and the provincial governments were recommended to take this matter in hand. "District Boards, local boards, village Panchayats, and municipalities may be required by legislation to provide standard weights as well as weighing facilities."[1] The various Marketing Acts establishing regulated markets (Berar, Bombay, Punjab, etc.) provided for the keeping and using only of standard weights and measures in such markets as we shall see presently. In 1928, the Central Provinces Governments passed Weights and Measures of Capacities Act to secure standardization of weights and measures by notifying areas for the purposes of the Act. A similar Act came into force in the Bombay Presidency in 1935. A Standard of Weighs Bill was passed by the Central Legislature in 1939. This enabled the provinces to introduce uniform weights and measures prescribed by the Act. Such measures are even now needed in Pakistan. These will certainly lead to more extensive and smoother marketing of the produce from which both the producer and the consumer are bound to derive benefit. In the large markets weigh-bridges should be established over which first the loaded and then unloaded cart of the cultivator may be passed, thus checking the weighment done by the market weighment. This will act as a check on the malpractices of the weighmen and will be a source of satisfaction to the cultivator-seller.

(*iv*) *Market Charges*—One of the greatest scandals of the marketing in pre-division India was the multiplicity of charges levied on the seller of the produce. The total amount of such charges levied on wheat is compared below provincewise :—

AVERAGE MERCHANDISING CHARGES ON[2] WHEAT IN WHOLESALE ASSEMBLING MARKETS
(Per 100 Rupees)

Province	Total paid *By buyer*	Total paid *By seller*	Total charge
Punjab :	Rs. a. p.	Rs. a. p.	Rs. a. p.
Canal colony	0 13 10	2 0 9	2 14 7
Non-colony	1 10 8	1 7 2	3 1 10
United Province :			
Western	1 8 2	1 7 4	2 15 6
Central and Eastern :	1 2 8	3 4 8	4 7 4
Central Provinces	0 5 8	3 12 2	4 1 10
Bihar and Orisa :	1 8 9	1 15 9	3 8 6
Bombay :	2 7 1	1 11 11	4 3 0
Sind	1 1 6	3 1 0	4 2 6
Average for India : ...	1 5 3	2 5 7	3 10 10

1. Mukerjee, op. cit., p. 304.
2. Based on Appendix XXX, p. 405, of the *Report on the Marketing of Wheat in India*.

Note the high amount of the charge and the fact that in almost every case the seller paid more than the buyer. The charge on the seller according to the above figures was especially high in the Central Provinces, the United Provinces—Eastern and Central markets—Sind and the Punjab Colony markets.

These charges were the sum total of a large number of items which are detailed in the following table. The figures refer to the Lyallpur Mandi in the Punjab.[1] To show how much saving could have been effected by selling through the co-operative shop, figures are also given relating to charges made by such a shop[2] in the same mandi.

SELLERS EXPENSES IN THE LYALLPUR MANDI

(Per Rs. 100 of sale)

Items	Local shops	Co-operative Commission Shop, Ltd.
	Rs. a. p.	Rs. a. p.
1—Commission	0 12 6	0 8 6
2—Palledari (porterage)	0 3 9	0 3 9
3—Total (weighment)	0 3 9	0 3 9
4—Chungi paid to buyer's servant) ...	0 1 3	0 1 3
5—Brokerage (to buyer's dalal) ...	0 1 3	0 1 3
6—Shagirdi (to arhatis' apprentice) ...	0 1 3	Nil
7—Dharmao (Charity)	0 1 3	Nil
8—Gaoshala (Charity)	0 0 3	0 0 3
9—Changar (sundry payments in kind	0 12 3	0 3 6
Total ...	2 5 6	1 6 3

By selling through the commission shop the seller could have saved Re. 0-15-3 per cent. Some of these charges were made for services done, while others were unreasonable impositions; for instance Nos. 4, 5, 6, 8 and many of the charges in No. 9. Why should the seller pay to the buyers' servant, his apprentice, his dalal and his charitable activities? The commission charged was also 50 per cent higher than that of

the co-operative shop.[1] It was thought necessary that superfluous charges be made illegal and other charges should be made uniform. Attempts were made to achieve this object in the regulated markets as we shall see.

Mention may here also be made of another set of charges made from the seller, not in the market, but before he entered the market town. These are octroi duties, terminal taxes and tolls. According to the Wheat Report, these amounted sometime to 4 or 5 per cent of the value of the produce and were generally paid by the cultivator. "In theory of course," says the report, "the octroi duty should be payable by the consumers in the town in the form of enhanced prices, but owing to the fact that they are in the first instance paid by the cultivator-seller, who has no alternative but to let the charges come altogether out of his pocket. Considering the fact that the amount of octroi collected in the course of the year by municipalities amounts to over Rs. 1·5 crores, the fairness of the incidence of this tax is a matter for serious investigation."[2]

The Wheat Report in fact contended that even the charges levied on the buyer in the first instance were shifted on to the seller by forces of competition, through reduction in price paid to him. "All octroi duties, terminal taxes, tolls, market charges and charities paid on the wheat between the cultivator and the consumer, are inevitably forced back (the upper limit of price being fixed already by competition) on to the cultivator, who is willy nilly compelled to pay for the upkeep of municipal roads and other amenities of the town through octroi and similar duties. He also pays by way of charities, in many cases for educating the urban children and for maintaining other charitable institutions from which he himself derives no direct benefit."[3]

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1. The commission shops, however, did not prove such a success as one might expect. Their development was hampered by many difficulties "Thus wrote one observer: "They make little appeal to the small peasants, the majority of whom do not sell in the markets. The members are lukewarm in their support, and do not always use the co-operative agency for the sale of their goods. There are management troubles too; it is very hard to get reliable and experienced staff in the existing grades of salaries Again, many growers and beoparis are either indebted to, or have accepted advances from, the arhtiyas; and quite often there are old-established relations between them So the sellers from the country-side, as also the agents of the merchants in the "mandis," take their produce to the "arhtiyas" rather than the co-operative institutions These factors combine against the commission shops doing greater business. Nevertheless their financial position seems to be sound, and sales are increasing steadily." Hussain, op cit, p. 129.

2. Report on the Marketing of Wheat in India, p. 175.

3. *Ibid.*, p. 288-89.

12. Regulated Markets:— Mainly two great reforms were usually suggested to save the cultivator from the oppressions of the prevailing system. One was the establishment, all over the country, of regulated markets on the Berar and Bombay model, and the other was the marketing of produce through the cultivator's own co-operative societies formed for this purpose. We shall now consider these two proposals, which were to some extent put into practice in pre-partition India.

The first provision, for the establishment of regulated markets, was made by the Berar Cotton and Grain Market Law of 1897. It vested the management of such markets in an elected committee representing the people living in the area served by the various markets and of the local authorities. *Arhtiyas* were to be registed and the weighmen and dalals to be licensed; unlawful deductions were prohibited and only standard weighs were to be used. Penalites were fixed for breach of law. The Agricultural Commission recommended establishment of similar markets for other areas and other commodities. Bombay modelled its Cotton Markets Act of 1927 on the Berar Law with some improvements. This latter was replaced following the enactment in 1930 of more comprehensive laws—the Bombay Agricultural Produce Markets Act. Similar laws were passed in Hyderabad State (1930), Madras (1933), Central Provinces (1935), Mysore (1939), N. W. F.P. (1939), and Punjab (1939). In essentials all these laws resembled each other. A few words my be said about the Punjab Agriculture Produce Markets Act.

The main features of this Act which is still on our Statute Book are as follows:—

(*a*) A Market Committee will be set up in each market area to ensure honest dealings between buyers and sellers and to generally administer the market. The Commitee will represent the various interests—the growers, commision agents, traders, etc. Members will " be selected by the Government from among the prescribed panel of names submitted by the non-official members of the district board of the district in which the market area is situated and by the traders in the market."

(*b*) The Market Committee will standardize the various market practices and charges; would keep standard weights, will see that the same broker does not represent both buyer and seller; and perform similar other functions ensuring fair play in dealings. In cases of dispute, the Committee will provide arbitration facilities.

(c) The Act provides for the licensing of brokers and weighman and prescribes penalties for breach of law.

13. **Co-operative Marketing:** In theory, a multitude of advantage are claimed for co-operative marketing: Improved marketability of goods; possibilities of devloping markets (by means of advertising); stabilizing of production, controlling the flow of the supplies, increased bargaining power of the growers, reduced costs and more efficient service, ablity to finance the marketing and producing operation of the members and so on.

Co-operative marketings has met with great success in Europe and America. In pre-division India, beginnings had already been made in several provinces. In Bombay, sale societies for cotton were doing well. Co-operative cotton sale societies had also been started in the Central Provinces, Madras and the Punjab. The principle of co-operative sale had been extended to gur, tobacco, chillies, paddy, areca nut, and potatoes. Experiments made in Bengal in the sale of jute and paddy had not met with success. Sale societies in Madras too had not made much progress. The movement, however, had struck root in Bombay where cotton growers had reaped considerable benefits. In United Provinces, societies for the sale of sugarcane were making rapid progress, so were the ghee sale societies. Potatoes, cereal and fruit were also being tackled in the same way with success. In Bihar, cane growers' societies were being formed. In other provinces the movement had not made notable success. The causes of the lack of progress are many: "It is only the complexity of the working of co-operative sale socieries, the dsfficulty of providing for marketing finance, the lack of expert knowledge on the part of co-operative officials and the lack of godown and storage facilities that have prevented the the rapid multiplication of sale sociecs and their efficient working."

14. **The Marketing Organization:** As early as 1928 the Agricultural Commission recommended the appointment of expert marketing officers and carrying out of marketing surveys of the various commodities. The British Indian Government, however, delayed the matter due to financial stringency until in April 1934, when Mr. A. M. Livingsrone was appointed Agricultural Marketing Adviser to the Imperial Council of Agricultural Research. The provincial Economic Conference of April 1934 also agreed on the develop ment of marketing facilities and recommended action on the following lines: (i)

Propaganda and supply of information in external markers regarding Indian produce; (*ii*) The grading, storing and bulking of the main staple products, special market organization for perishable commodities; (*iii*) informatian to India's producers of consumers' requirements both in India and abroad, (*iv*) The planning of production on basis of quality and demand. (*v*) The establishment and development of regulated markets; (*vi*) The undertaking of market surveys for the purpose of developing a common plan throughout India; and (*vii*) The establishment of properly organized " future " markets, commodity exchanges and warehouses.

The Government of India, in their resolution of 8th May, 1939, outlined their policy on the lines recommended by the conference. This policy was to be carried out in collaboration with the Provinces and the State through the agency of a Provincial and Central Marketing staff which was appointed. The central staff consisted of the Agricultural Marketing Adviser three Senior Marketing Officers, three Marketing Officers, one Supervising Officer for experimental grading and packing stations and twelve Assistant Marketing Officers. The provincial staff included a Chief Marketing Officer and Assistant Marketing Officers.

The work of this staff was of three kinds: (*i*) Investigation; (*ii*) Development; and (*iii*) Grading. Investigation work included carrying on of marketing surveys of important commodities, problems of regulated markets, transportation, storage, ect. Development work depended upon the results of surveys. It, however, includes keeping the producer and trader in touch with consumers' requirements and popularization of standard grades and containers.

15. The Marketing Organization's Achievments: The marketing organization did good work after its establishment. Its achievment are summarized below.—

(*i*) Marketing surveys of a large number of commodities were accomplished and reports on such surveys were published. The chief commodities surveyed were: rice, wheat, linseed, groundnuts, tobacco, coffee, fruit, milk, livestock, hides and skins, etc.

(*ii*) The surveys revelated the necessity for grading due to sale of mixed produce of doubtful quality that was going on. There was thus a case for grading agricultural produce. To this end the Agricultural Produce (Grading and Marketing) Act was passed in February 1937. We have already noted the work done

under this Act. On account of grading of the produce, goods, especially perishable goods (eggs, fruits, etc), secured better prices tahn before.

(iii) Progress was also made with respect to standardization of contract terms (for white wheat, linseed and groundnuts) thus widening their marketing field.

(iv) Finally, arrangements were made for market news service. This was done by weekly broadcasts from the All-India Radio, Delhi, regarding prices, stocks and movements of certain staple commodities Daily closing rates were also broadcast from some other Radio Stations like Lahore in the rural programme. The Provincial Marketing Officers took steps to furthet improve marketing news services.

A Ministers' Conference on Agricultural Marketing was held in New Delhi in 1941. It recognized the need fot slowing down survey work and accelerating developmental work. Among other things the conference favoured the establishment of an organization for the purpose of investigating the possibility of adjusting India's export trade in primary products to war conditions.

16.—Post-partition Marketing Position in Pakistan.—As a result of Partition the marketing of agricultural produce in Pakistan, especially Western Pakistan was faced with many difficulties. The marketing was almost entirely financed and controlled by the Non-Muslims. With their migration the old links between the producer and the consumer were broken. The mandis of old lost their set of Arhtiyas, and brokers of various kinds. The village beopari-cum-money lender disappeared. The financing agencies like indigenous bankers and joint stock banks stopped their operations, their assets and staff moving out of the country. Even the co-operative agencies were for a time faced with a crisis due to the movement of

The marketing organization established in pre-partition days in the provinces continue their ativities as before. There is a Central Advisory Service to co-ordinate their efforts. Detailed marketing surveys of various agricultural commodities and live-stock products are being carried on under the supervision of the Central Organisation. Final reports are being prepared which deal with all aspects of marketing *i. e.*, supply, demand, preparation for markets, price assembling and distribution, transport, storage, grading and standardisation etc. On the basis of these surveys attempts are made to improve the marketing methods. The idea is to give to the actual producer the maximum out of the final sale proceeds of his products. The middlemen who used to appropriate a big portion of the sale proceeds are no longer there. Attempts are being made to prevent the emergence of similar agencies. It is widely realised that co-operative marketing holds the solution.

The importance of attaining and maintaining high standards of quality of the produce is fully realised by the government. Measures have already been taken to fix standards and grades of quality in the case of certain commodities. The grading of eggs and ghee is being undertaken on a voluntary basis. A Wool Conference was held at Karachi in June, 1949 in which ways and means of establishing standard specifications for wool exported from the country were discussed. A sub-committee was appointed to work out a scheme for this purpose. Steps are also being taken to introduce a scheme for grading of hides and skins ore export. Standards of quality have already been fixed in the case of Jute. A Pakistan Central Cotton Committee (on the same lines as the Indian Central Cotton Committee) has been formed which is devoting attention to the growing of pure varieties of cotton and their marketing and export in well defined grades.

The necessity of well regulated markets is also fully realised. In some provinces legislation exists for establishing regulated markets. Such markets are looked after by market committees, majority of the members of which are producers. Market charges have been fixed and provision is made for licensing of marketing functionaries, Legislation also exists for the standardisation of weights and measures.

All these steps are in the right direction. It is hoped that co-operative marketing will get widely spread in due course as an integral part of the re-organisation of our agriculture on co-operative lines as suggested in a previous chapter.

CHAPTER VIII

RURAL FINANCE AND INDEBTEDNESS

1. Introduction.—Every productive enterprise, including agriculture, requires finance because the operations have to be started and expenditure undertaken in anticipation of actual production The more advanced kind of agriculture requires greater investment in farm equipment, seed, manures, and other essentials of production, even if the land belongs to the cultivator himself. When agriculture is of a primitive kind, as it is in Pakistan, it does not yield enough returns to enable the agriculturist to meet his normal day to day needs, not to speak of leaving a surplus for heavy productive investments. Under such conditions the danger of the peasant running into debt is very close indeed, as the history of the agriculture in the Indian sub-continent and similar other backward areas has shown In this chapter we intend to study the problem of the financing of agricultural operations with special reference to the past experience of the Indian sub-continent and the present needs of the agriculturist in Pakistan. Since the need for rural finance has in the past led to indebtedness of the peasantry, which became at one time a very serious problem, the two problems are inextricably conneted and, therefore, will be studied together.

2 The Financial Needs of the Cultivator.—More than half a century ago (in 1895) Sir Frederich Nicholson in his famous Report, "Land and Agricultural Banks," wrote: "The lesson of universal history from Rome to Scotland is that an essential of agriculture is credit. Neither the condition of the country, nor the nature of the land tenure, no the position of agriculture affects the one great fact that the agriculturist must borrow." The fact is that every modern business worth the name is run on credit or borrowed money. Agriculture in Pakistan is not strictly run on business lines still it cannot dispense with borrowing. Agriculture, especially in a country like ours, gives rise to certain peculiar problems of finance because of its uncertainties, its comparatively small unit of production, scattered nature of its operations and the illiteracy, conservatism and lack of forethought among the peasantry. This accounts for the fact that the pro-

blem of rural finance at one time became the problem of rural indebtedness. Certain circumstances connected with the war, and partition have, for the time being, given a breathing to the cultivator and the problem of indebtedness is not so pressing at the moment. But the basic needs of the agriculturist are still there and some agency must undertake to supply these needs effectively, otherwise the old problem may again emerge. What are these needs ?

The agriculturist requires three types of credit to carry on his operations successfully :—

(*a*) Long term credit for expenditure on permanent improvements. These involves investment of capital in the construction of wells, digging of channels to divert the watet of rivers where necessary, construction of bunds and embankments, terracing of hill sides, clearing of jungles, drainage and fencing of his plots etc. The larger irrigation works are constructed by the state in Pakittan and need little private investment for long periods. The finance required on other items of this category of expenditure is either provided by the cultivator himself from his own savings or through private borrowing but in the words of the Royal Commission, " the state has long recognised as one of its duties the encouragement of such improvements by the grant of loans at a rate of interest as low as conditions permit." These are the well known " *taccavi* " loans which we shall speak of later.

(*b*) Intermediate credit. This the cultivator requires for the purchase of more expensive implements, cattle and sometimes for the erection of buildings. For these in the past he had mainly to resort to the money lender.

(c) Short term credit. In addition to the above the agriculturist requires money for financing his current requirements, like the purchase of seed, fertilizers, feeding stuff for cattle etc.

These requirements are for productive purposes and have to be looked after if agriculture is to be carried on as a successful business proposition. These loans pay for themselves by increasing the productive powers of the land and the cultivator himself.

In Pakistan, however, in the past, m ney has been borrowed for purposes which cannot be strictly called legitimate needs

(1) Report Royal Commission on Agriculture in India, (1929) p. 46.1

of agricultural production These borrowings, sometimes may be necessary for, instance, when the cultivator has to spend on medical aid, or has to tide over a bad season by borrowing for consumption, or is involved in some other unforeseen misfortune. Borrowings have not always been what may be called legitimate. Some peasants have got into debt through sheer improvidence and extravagance. They have spent money on expensive social ceremonies on occasions of birth, circumcision, betrothal, marriage or funeral. In certain parts of the country e g the Punjab, such expenditures have been a serious cause of indebtedness

One defect of the system of the money-lender of prepartition days, as, we shall see, was that he made no distinction between the "legitimate" and the "illegitimate" demands for credit on the part of the peasant. The agency that takes his place must distinguish between these two

3. Sources of Credit or Agencies of Finance —So far the agriculturist has been financed by the following agencies, though since the partition their relative importance in Pakistan has changed considerably.

(i) The village money lender, professional or non-professional.

(ii) The indigenous banker, usually acting through intermediaries.

(iii) Commercial banks—The Imperial Bank of India, the Joint Stock Banks etc. These provided finance not directly to the cultivator but indirectly through intermediaries of various kinds.

(iv) The Government.

(v) The Co-operative Credit Societies.

(vi) The Land Mortgage Banks (organised either on co-operative principle or joint stock principle).

At the moment in Pakistan most of these agencies are inoperative. The village money lender was in most cases a non Muslim and he has practically disappeared from Western Pakistan. In Eastern Pakistan also his operations have been seriously curtailed. The indegenous banker has also gone. Of the commercial banks very few remain and they play very little part in financing the needs of the agriculturist. The newly established National Bank of Pakistan may at a later stage assume this function, But obviously such a bank cannot

give direct credit to agriculturists. There is at moment the no link between this bank and the village peasant. The government is still ready to help but this help is rendered under great limitations and can only meet requirements under emergencies. The government cannot be expected to meet all the credit needs of the agriculturist. The land-mortgage banks are few and far between. Thus the most important existing and potential agency for financing agriculture in Pakistan is the co-operative credit society. We have devoted a full chapter to co-operation. *Here*, therefore, we propose to discuss the emergence of agricultural indebtedness as a problem in this part of the world, its causes and remedies applied in the past. This historical survey is necessary for future guidence in the matter of preventing the emergence of a similar problem again.

4. **Emergence of Rural Debt as a Problem.**—For indebtedness to arise the following conditions must be present :—

(*a*) Existence of borrowers with necessity to borrow and security, material or personal, to offer.

(*b*) Existence of lenders with capital to lend and willingness to lend. The willingness of the lender to lend will depend upon. (*i*) The security offered by the borrower, which is acceptable to the lender. (*ii*) The existence of law and law courts to which recourse may be had in case the borrower refuses to pay the debt.

In the light of the above it will be easy to understand why indebtedness was not a serious problem in the Indo-Pak sub-continent before the consolidation and establishment of British Rule. The borrower's necessity has always existed in this sub-continent. " We have found no reason to believe " wrote the Famine Commission of 1880, " that the agricultural population of India has at any known period of history been generally free from debt." But indebtedness could not have been verv serious in pre-British days. This was because, (*a*) there was little accumulation of capital to lend ; (*b*) there was little surplus with the peasant from which a loan could be paid ; (*c*) there was practically no security to offer to the lender ; and (*d*) there were no sure means of enforcing recovery against a recalcitrant borrower. There was little surplus for repayment of loans because of the heavy demand of land revenue. There was no security to offer because the rights of ownership in land were neither valuable (because it produced no surplus over costs of production) nor

definitely recognised and enforced. Finally, there were no regular courts to enforce the contracts made between the debtor and the creditor.

The advent of the British rule, in due course, changed all this. " The land from being a burden, entailing the satisfaction of a crushing State demand, became a valuable property, improved communications opened up markets for the sale of surplus produce,......property of all kinds rose rapidly in value. Further, the introduction of fixed laws and the general security following on the enforcement of order, rendered the land available as the ultimate security for loans. Another factor of great importance was the growth of a money economy and the increase of wealth as trade developed[1]. The Famine Commission of 1880, wrote, " Now with value of land risen, rights defined and recorded, money-lenders have lent more freely on the security of ascertained interest in land......there is everywhere a serious amount of agricultural debt, and at any rate, there is everywhere the habit of running account with the money lenders which always slide into debt when a crop is lost or a bullock has to be replaced." The new circumstances put the peasant entirely at the mercy of the money-lender. " By 1880," wrote Darling about the Punjab, " the unequal fight between the peasant proprietor and the money-lender had ended in a crushing victory for the latter......For the next thirty years the money-lender was at the zenith and multiplied and prospered exceedingly, to such a good effect that the number of bankers and money-lenders including their dependants increased from 53,263 in 1868 to 193,890 in 1911[2]."

Thus the advent of the British rule increased the *opportunities* of borrowing and lending. But what about the *necessities*, which compelled a peasanr to borrow. They had always existed and on account of the greater pressure on land due to the growth of population had been accentuated with the passage of time. The small holdings and the way it was splitted up yielded a mere pittance to the cultivator. He had no reserve to pay for the recurring losses of cattle from drought and disease. Added to this was the cultivator's ingrained improvidence which led him to extravagant expenditure upon marriage and other domestic ceremonies. And when he had credit to offer due to inflated values of land and the money-lender with his unscrupalous system of lending was

(1) Calvert H. " Wealth and Welfare of the Punjab " p. 248.

(2) M. L. Darling. " The Punjab Peasant in Prosperity and Debt." p. 208.

there to take advantage of the situation, no wonder that indebtedness became a serious problem of enormous magnitude.

5. **Extent of Rural Debt.**—What was the magnitude of the debt thus created ? Several estimates were made from time to time as to the amount of debt owed by the peasantry in pre-partition India. One of the earliest was in 1875, by the Deccan Roits Commission and related only to 12 villages in the Ahmad Nagar Disttict of Bombay. They found that $\frac{1}{3}$ of the occupants were involved in debt, which was about 18 times the revenue assessment, average debt per occupant being Ra. 371. The Famine Commission of 1880 expressed the view that $\frac{1}{3}$ of the land holding classes in India were deeply in debt and an equal proportion were in debt but not beyond the power of recovering themselves. Sir F. Nicholson in 1895 estimated the total rural debt of Madras at Rs. 45 crores, and on this basis Sir Edward Maclagan estimated that in 1911 the total rural debt in British India was Rs. 300 crores.

The next important enquiry was that of Mr. (later Sir,) M. L. Darling I.C.S. in 1925. He estimated the total agricultural debt of the Punjab at Rs. 90 crores, average debt per cultivated acre at Rs. 31 and per head of agricultural population at Rs. 76 According to him rural debt in the Punjab was at least 19 times the land revenue demand of the Government. In the case of proprietors the debt was equal to three year's *net* income, the average debt per indebted proprietor being Rs. 463 as against Rs. 150 only per indebted tenant Thus prosperity and debt seemed to go together. Mr. Darling further calculated that the total agricultural debt of British India was not less than Rs. 600 crores or £400 millions[1].

Five years later the various Provincial Banking Enquiry Committees made estimates of rural debt in their respective provinces. According to their estimates the total rural debt in British India excluding Burma was Rs. 803 crores. At the time of this estimate the total value of production of principal crops in India was Rs. 955·3 crores. This meant that the peasantry owed in debt almost as much as the total annual production of the chief agricultural commodities.

As regards different provinces the Punjab had the highest debt per agriculturist (*i.e*, Rs. 92). The total agricultural debt of the Punjab was estimated Rs. 135 crores. This meant that in four years the rural debt of the Punjab had been more

1. Darling Punjab Peasant in Prosperity and Debt pp. 20, 21.

than doubled. The debt in the Punjab was almost twice the annual value of the principal crops of the province at 1928-29, prices. The rural debt of Bengal was Rs. 100 crores which was about one-half of the value of the principal crops. The debt per cultivator was Rs. 31. The lower figure for Bengal was probably due to the lowering of the standard of living of the peasantry and these being mostly tenants who had security little to offer. The high value of crops was due to jute being the main crop which gives high income per acre though not so much to the actual cultivator. The debt *per agriculturist* in the other provinces of India was Madras Rs. 50, Bombay 49, U. P. Rs. 36, C. P. Rs. 30, Bihar and Orissa Rs. 31, Assam Rs. 31.

These estimates were made before the disastrons fall in agricultural prices from 1930 onwards. Due to the fall in prices during the depression rhe burden of the debt increased enormously. The total value of agricultural production (principal crops) fell ftom Rs. 955 crores in 1928-29, ro Rs. 545 crores in 1932-33. Correspondingly the burden of the existing debt increased apart from the newly incurred debt. According to an estimate by Dr. R. K. Mukherjee the rural debt of India in 1935 was Rs. Rs. 1200 crores. Another writer put in at Rs. 2300 crores[1].

During the world war II the prices of Agricultural products rose and correspondingly the real burden of the debt decreased. It is difficult to say, however, how much of the debt was repaid especially by the small holders, who suffered more from inflation than he gained. "Judging from the replies received from a number of provinces," wrote the Bengal Famine Commission in 1945," it appears probable that small holders as a elass have, not benefitted materially. It is true that the market value of their holdings has risen greatly. Those who supplement their income by other forms of labour have also been helped by the prevailing high level of employment and wages. Again in some parts of the country, family allotments by soldiers have added to income. Against these circumstances must be set, however, the important fact that amount of produce normally sold by small holders for payment of revenue, rent ond repayment of debt, is relatively small and there has been a substantial rise in prices of consumer goods usually purchased by them. It therefi re appears probable that the indebtedness of this class, speaking generally, may not have

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1. P. J. Thomas : Economic Problems of Modern . India Bd. R. K. Mukherjee vol. I p. 176.

been reduced substantially in many parts of the country[1]! Only a detailed enquiry could show the real effects of the war on the debt situation,

It was, however, not so much the amount of the debt but its unproductive character which made the problem so serious. According to the respective Provincial Banking Enquiry Committees the percentage of unproductive debt to total debt in Bengal U. P. and Bombay was 70% and in Madras 60%. According to Darling in the Punjab only 5% of the debt was incurred for land improvement. Most of the balance must have been unproductive debt.

6. **Consequences of Indebtedness.** When an agriculturist borrows money for productive purposes the result is increased income for him. The productive capacity of his land is enhanced and the debt becomes a blessing for him. But when the money is spent for unproductive purposes, the debt becomes a standing curse to him. It leads to serious economic, social and moral consequences.

As regards Economic consequences, indebtedness leads to agricultural inefficiency. When the cultivator finds that all his additional efforts go merely to enrich his creditor, he loses all interest in improving his position by greater effort and improved methods if production. Productivity of land thus decreases. If the debt involves mortgaging and finally sale of landed property, the result is increase in tenant cultivation and increased number of landless labourers. Both of these developments do not conduce to agricultural progress and prosperity. In the marketing of his produce also the peasant suffers if he is a debtor to the middleman. He usually has to sell his produce to his creditor on the latter's terms. This means not only lower monetary return to the debtor, but it also acts as a serious barrier in the way of improvement of marketing methods through co-operative sales. Thus no agricultural progress is possible for an indebted peasantry.

As to the social consequences, class friction arises between the creditor and debter classes. The increase of a landless class with no avenues of employment creates further social discontent and political instability. That landless labourers were increasing in number presumably as a result of sales against debt was indicated by the fact that their number per 1,000 of cultivators increased from 291 to 407 in ten years between 1921 and 1931.

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1 Bengal Famine Enquiry Commission, Final Report. p. 300.

The moral consequences of indebtedness are the worst. The cultivator loses his ancestral property and in many cases with it his economic freedom. In certain provinces of prepartition India cases of such servitude were not uncommon. In the Muzaffargarh district of the Punjab, for instance, the tenants were practically slaves of the money lending landlords who exploited them thoroughly. In Bihar and Orissa what were called the Kamiauti agreements and in *Madras* the *Pannaiyal system* created conditions of practical servitude for the labourers. These workers in return for a mere pittance had to work on the land of those from whom they were unfortunate enough to have borrowed money. Once in debt, it was impossible for them to get out of it [1].

7. Remedies Applied—Relief from Old Debt. The debt problem demanded two-fold remedies, (*i*) Reduction or elimination of the existing debt. (*ii*) Measures for Regulation and control of private money lending (*iii*) Creation of Alternative Agency of rural finance.

It was obvious that unless the old existing debt (mostly ancestral) was got rid of there was no hope of agricultural progress in the country. The ancestral debt had accumlated because of the ignorance of the peasant of the legal position, that debts of the deceased could pass on to his heirs only to the extent of the property inherited by the latter. One remedy was to declate the debtor insolvent where his assets fell short of his liabilites. "No one desires to see a wholesale resort to insolvency," wrote the Royal Agricultural Commission, "and no one, we trust, desires to witness a continuation of a system under which innumerable people are born in debt, live in debt and die in debt, passing on their burdens to those who follow[2]". The Central Banking Enquiry Committee agreed with the view and suggested certain special provisions in the proposed *Rural* Insolvency Act.

In some provinces of British India legislation was passed which included provisions for declaration of insolvency under certain conditions. They also provided for reduction and settlement of old debts on an equitable basis for both parties. The problem was tackled in three ways (*a*) Moratorium, (*b*) Liquidation (*c*) Conciliation.

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(1) Read details of the system Economic Problems of Modern India op-cit P. 172.

(2) Report op cit P. 440-41.

Moratorium, implied staying of proceedings in courts with regard to the recovery of debt. Grant of Moratorium was the earliest measure taken by provincial governments to protect the agricultural debtor faced with difficulties during the Depression of the thirties. The idea was to prevent a rush of suits and wholesale execution of decrees. Direct or indirect Moratoriums were declared by the provincial government of U. P. (1932), C. P. (1934), Bombay (1938).

Liquidation or compulsory scaling down of debts was necessitated also by the unbearable burden of debt as it emerged during the Depression. Several Provinces and States passed Agriculturist Relief Acts aiming at such measures e.g. Madras (1938) C. P and Berar (1938) Bombay (1939), U. P. (1938); Sind (1940). Some Indian States like Bhavanagar, Mysore and Travancore also adopted such measures.

The main provisions of these Acts related to reduction of outstanding debts so as not to exceed twice the original principal, reduction of arrears of interest, fixing of the rate of interest for subsequent years.

Debt Conciliation legislation aimed at voluntary settlement between the debtor and the creditor with the help of specially constituted Conciliation Boards. This legislation was also necessitated by the disastrous fall in agricultural prices during the Depression.

The programme of debt conciliation was vigorously pursued by almost all the provinces of India in passing Debt Conciliation Acts e. g., Debt Conciliation Act of Central Provinces and Berar (1933) Punjab Relief of Indebtedness Act (1934), Bengal Agricultural Debtors Act (1935), Assam Debt Conciliation Act (1935), Madras Debt Conciliation Act (1936) and Sind Debt Conciliation Act (1939). Under these Acts Debt Conciliation Boards were appointed. These were composed of officials and non-officials, representatives of creditors and debtors. Any agreement reached between the parties before these Boards was registered under the Indian Registration Act and had the force of a court decree. The conciliation amount was payable in instalments and further interest on the amount ceased. Generally the rule of Damdupat was followed according to which the interest is not allowed to exceed the principal. The Bengal Act also provided for compulsion where conciilation failed.

As a result the amount of debt was considerably reduced in the Punjab, Bengal, and Assam. In C. P. a debt of Rs. 90'5 crores

was reduced by about 50% to Rs. 4.8 crores. In the Punjab by the end of 1943 claims amounting to Rs. 3.61 were scaled down to Rs. 1.38 crores by agreement. In Bengal by 1939 debts were scaled down to the tune of Rs. 5 crores.

In some provinces (e. g., C. P. & Berar) provisions were made for the payment of the reduced debts through constituting Land Mortgage Banks.

Since in many provinces voluntary scaling down did not prove successful compulsory scaling down was introduced. Necessary legislation to this end was passed in Madras, Central Provinces, United Provinces and Bombay.

It should be noted that the debts in question were not all *bona fide* debts. In many cases they were comparatively small sums accumulated to huge amounts through compound interest charged over and over again generation after generation. In many cases the clever money lender had taken advantage of the pressing needs and ignorance and illiteracy of the peasant and through fraudulent practices (wrong entries etc) had managed to inflate his claims unduly. In such cases the remedy was wholesale cancellation rather than reduction.

Many defects were discovered in the working of the system of conciliation. The Acts excluded certain classes of debts, like rent debts, co-operative debts, trade debts etc. This considerably restricted the scope of the legislation in solving the debt problem. Illiterate debtors sometimes failed to give the names of all their creditors. To some of them therefore notice could not be served as required by the Acts. Then there were fraudulent practices like false transfers and bogus mortgage deeds which hampered settlement. There was no provision in most of the Acts for settling debts of individual debtors in the case of joint debts unless all the debtors applied for conciliation corruption and inefficiency of Boards was also detected. On the whole, however, the legislation did succeed in reducing the debt burden of the peasantry and bringing it within the capacity of the debtor to pay. In this way the creditors also gained because they were able to realise at least part of their debts which otherwise had reached impossible amounts.

8.—Measures for Avoidance of Future Indebtedness.— The seconed approach to the problem of indebtedness was to create conditions under which unproductive borrowing and lending would be discouraged. This required proper education of the borrower and imparting to him a greater sense of

responsibility and foresight. This could be done by intensive propaganda and gradual spread of primary education in rural areas. Village Punchayats could do a good deal in this connection. But these were long term remedies. Something had to be done to save the peasant from the vicious system of the money-lender and his own improvidence. This could partly be accomplished by taking measures which would reduce the power of borrowing of the peasant by limiting his credit. We have seen that debts grew after land became valuable, which made it safe for the lender to lend. Credit could be reduced therefore by putting limitations on the transfer of rights in land. On the other hand the temptations of the money lender could be reduced by restricting his power to attach certain type of the peasants' paoperty or power of getting him arrested for non-payment of debt. In addition his system of lending could be regulated so that he was unable to increase illegitimately his profits from money lending. This could be done by forcing him to keep proper accounts and to keep the debtor informed of the latter's liabilites, by fixing a maximum rate of interest that could be charged and by making lending illegal except under licence. Such measures were introduced in various provinces. These are discussed below.

9.—**Restrictions on the Borrower.**—The most important of the restrictions affecting the borrower were those placed on the transfer of land in certain provinces. The most outstanding example of legislation passed for this purpose was the Punjab Land Alienation Act of 1901, amended in 1907 and again in 1938. A similar Act was passed for Bundelkhand (U. P.) in 1903. Restrictions on the alienation of land by the aboriginal tribes also existed in Central Provinces and Bombay.

Under the Punjab Act the Chief ancestral cultivating classes were notified as falling within the restrictions imposed. Members of the notified tribes were grouped by districts and within such groups alienations were left free subject to the ordinary customary law of the tribe. The Act restricted the sales and mortgages by members of a group to any one not such a member. The Royal Commission on Agriculture[1] found in 1928 that the Act had achieved its main object, namely, that of restricting the transfer of agricultural land from the agricultural to non-agricultural classes. This was the evil in the Punjab that had called forth the Act.

(1) Repot op cit. P. 420.

The opponents of the Act predicted all sorts of evils as its consequence. ".The provisions of the Act would be disregarded or evaded, the money-lenders' trade would become impossible and the borrower would be pinched."[1] Nothing of the kind happened. Some evasion, however, took place through the method of *benami* transactions, by which transfers were nominally made in favour of an agriculturist, while the real benefit was received by the non-agriculturist money-lender. Such transactions were made illegal by an amendment in 1938. Another amendment, the same year, put the agriculturist money-lender on exactly the same footing as the non-agriculturist money-lender.

The Act is still on the Statute Book of the Punjab (Pakistan). Some people think that the Act is obsolete and undesirable under the new conditions. As regards the distinction between the agriculturists and the non-agriculturists as made by the Act, it was never logical and scientific. These categories were made on the basis of heredity not actual occupation. This distinction should go. But some protection is necessary to the small holder. Otherwise the danger is that the larger landlord may through lending to the ever needy small peasant, succeed in appropriating the latters' landed property. This will lead to further concentration of land with the absentee landlords, further increase in tenancy and the number of landless labourers. This development will be undesirable on economic and political grounds. The Act, however, needs revision in the light of the new circumstances. If, however, our suggestion of land reform given in the previous chapter are implemented there would be no need of any legislation of this type.

In addition to restrictions on the transfer of land some other Acts placed restricrions on the attachment of other forms of property up to a certain minimum, for instance, the Code of Civil Procedure was alrered in order to exempt from attachment or sale agricultural tools and implements and cattle necessary for tillage and the material of the agriculturist's house. The agriculturist debtor was exempted from arrest for a decree of the court. He was also given concession of repayment of his debt by instalments. These in effecr were restrictions on the powers of the lender to realise his debts than on those of the borrower to incur them. There were, however, direcr restrictions on the money-lenders as such.

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1. *Calvert op cit p. 268.*

11. Restrictions on the money-lender. The restrictions placed directly on the money-lenders, as distinct from indirect restriction (which acted through affecting the capacity to pay of the borrower) were of three kinds.

(*i*) Provisions for the registration and licencing of money lenders.

(*ii*) Regulation of their accounts.

(*iii*) Miscellaneous provisions restricting money-lending.

The above provisions are contained in a large number of enactments most of which were passed by the various provincial legislatures under the stress of the economic depression. An important Act, however, was passed by the centre as early as 1918 long before Provincial Autonomy. This was the Usurious Loans Act, 1918, which aimed at determining the legal and maximum a mount of interest chargeable and fixing such a maximum. An Important feature of this Act was that the court could re-open old transactions and enquire into the equity of the terms. The Agricultural Commission and the Banking Enquiry Committees, however, found that the Act was a dead letter. This Act was later amended by the various provinces and enforced in their respective jurisdictions. Such provinces were : Bengal ; Punjab ; Assam ; C. P. ; U. P. ; N.-W. F. P. ; Madras and Bihar. They made it incumbent upon the courts of law to re-open the accounts and reduce the rate of interest as prescribed under the amending laws.

The provinces also passed some new Acts to regulate money-lending. The registration and licensing of Money-lenders' Acts were passed by C. P. ; Bengal, Bombay, U. P. ahd the Punjab. They made it compulsory for the money-lender to register himself and obtain a licence. In the case of dishonest dealings his licence could be cancelled. Penalty was provided for money-lenders who carried on their profession without a licence. In actual practice, however, it was found very difficult to enforce these laws.

Other Act were passed with the object of regulating accounts. Under them the money-lender was required to maintain regular account books and had to furnish each of his debtors with a periodic statement giving details of the latter's liabilities with respect to principal and interest due on each loan transaction. He must also furnish receipts of payments received by him. Penalties (usually loss of interest) were provided for failure to keep accounts. Entry of fictitious amounts as debt was declared illegal and punishable with fine in certain

provinces The Punjab Act provided dismissal of the suit in such cases

As to the working of these provisions it was found that these were usually disregarded in practice by the money-lende in some provinces (e g. the Punjab) and was rarely enforced by the debtor in others (e g. C P.) The debtors' necessity and his ignorance of his rights stood in the way of effectiveness of the law.

Another set of provisions fixed maximum rates of interest. Usually a distinction was made between secured and unsecured loans, unsecured loans being allowed higher rates. In the Punjab, for instance, on secured loans the maximum rate was 12% simple and 9% compound interest and on unsecured loans 18% simple and 14% compound The highest interest was allowed by the Bengal Act *i e* 15% simple and 10% compound on secured and 25% simple and 25% compound on unsecured loans.

It is very difficult to enforce interest rates. When the borrower is needy the lender can alway charge higher rates, either by an agreement out of court or by entering a higher sum as principal, Such abuses came to light soon after such measures were passed in Bengal, U. P. and Madras[1].

Miscellaneous provisions related to the protection of the debtor from intimidation and molestation as in C. P, Bengal and U P. Others exempted his holdings from attachment and sale in payment of the debt as in the Punjab, Bihar and U. P.

These measures are still on the Statute Books of the Pakistan Provinces though at the moment the problem which they tackle are not pressing due to post-partition developments.

II. **Debt Legislation in the Punjab**—The province of the Punjab as we have seen was the most heavily involved in rural debt. Below we summarise individuably the various debt relief measures passed by this province. Acts in other provinces were modelled on similar lines

(*i*) Regulation of Accounts Act, 1930, under this Act the creditor is required to keep regular accounts relating to each of his debtors separately. At the end of every six months he must furnish a legible statement of accounts to each and every debtor. If he fails to do so with respect to a loan the court is required to disallow, as may seem reasonable, either whole or part of the interest due on it, even though his claim has been otherwise established on whole or in part, and further disallow costs.

1. Abbyankar: Provincial Debt Legislation. P. 45-47.

(*ii*) The Relief of Indebtedness Act, 1934. The main of this Act are :—

(*a*) A person owing Rs. 250 and over can apply to be adjudicated as insolvent. (*b*) Estates up to the value of Rs. 2,000 can be summarily administered *i.e.* without appointing a receiver or publishing certain notices. (*c*) Interest is to be deemed excessive by the court if on secured loans it exceeds 12% per annum simple or 9 per cent. compound, and if an unsecured loan it exceeds 18% simple of 14% compound. (*d*) The Act makes provision for setting up of Debt Conciliations Boards. Such a Board is to consist of a chairman and two or more members appointed by the local Goverement for a term not exceeding three years. A debtor or any of his creditors may apply for settlement to the Boards. The Board calls, where the debtor has appeared, upon every one of his creditors, to submit a statement of the debts owed to him by the said debtor. The debt for which the statement is not submitted is deemed for all purposes and all occasions to have been duly discharged. The creditor has to furnish all the necessary information to the Board well supported by documents regarding his claims. The debtor has to explain his case. The Board then endeavours to induce them to arrive at a settlement. If a settlement is arrived at the Board reduces it to writing. The agreement is then registered and takes effect as if it were decree of a civil court. If no settlement is arrived at the Board dismisses the application. If the Board thinks, that the offer by the debtor and refusal by the creditor is fair, the Board may grant the debtor certificate in respect of the debt owed by him to such creditor. If the creditor sues the debtor for such a debt, then the court does not allow costs in such a suit, nor interest on the debt after the date of registration at more than 6% per annum simple interest. (*e*) The principal of Damdupat is accepted according to which no court can pass a decree in any suit brought against an agriculturist for a sum larger than twice the amount of the sum taken as principal. Banks, however, are excepted (*f*) finally an agriculturist debtor may at any time deposit in court a sum of money in full or part payment of his debt for payment to his creditor ; and from that date interest ceases to accrue on that deposit.

(*iii*) **Debtor's Protection Act, 1936.** This Act provides that a civil court can order the attachment and temporary alienation of land of a judgement-debtor (*i.e.* debtor against whom the judgement has been passed). For execution the proceedings are transferred to the Collector of the district who

is to determine how much of the land is to be attached and alienated and for what period, not exceeding twenty years.

(*iv*) Land Alienation (Second Amendment), Act 1938.—This Act declares *benami* transactions to be invalid This fills a loop hole in the Land Alienation Act, 1901, which prohibited sales of land by an agriculturist to a non-agriculturist, as we have already seen. Some non-agriculturists used to purchase land in the name of a member of the agricultvrist tribe and get the benefit themselves. This is not strictly a debt legislation, though probably occasions for such transactions were created by advances of loans.

(*v*) The Land Alienation (Third Amendment) Act 1939.—This Act seeks to put the agriculturist money-lender on the same footing as the non-agriculturist money-lender, so far as the acquisition of land of the debtor by the creditor is concerned. The creditor cannot buy the land of the debtor until three years after the payment of debt in full.

(*vi*) Registration of Money-Lenders Act, 1938.—This Act requires all money-lenders to get themselves registered and to hold licence on payment of the fee that may be fixed, failing which no court is to entertain any suit filed by him for the recovery of a loan, or application for the execution of any decree relating to a loan. The Collector may cancel a licence for a specified period for malpractices.

(*vii*) Restitution of Mortgages Act, 1938. This Act extinguishes mortgages effected before the commencement of the Punjab Land Alienation Act, 1901. Compensation may be paid but only under certain conditions.

12. Critical Estimate of Debt Legislation.—The debt legislative measures considered above were variously viewed. On the one hand they were welcomed as blessings for the mass of the peasants. On the other hand they were regarded as a curse. The Punjab measures were called "Golden Bills" or the "Black Bill" by their supporters and opponents respectively.

The greatest objection that was advanced against such legislation was that it led to contraction of credit in the rural areas. The Statutory Report of the Reserve Bank of India drew attention to this fact (1937). "In areas where such legislation is in force, it is said that the money-lenders have discontinued lending except to old trusted clients, and have restricted their loans to a minimum.[1]" The

(1) Statutory Report on Agricultural credit (1937) P. 10.

contraction of credit could not all be attributed solely to debt legislation. The economic depression of the thirties was also responsible for it to a large degree. Many money-lenders who were also agriculturists had their assets reduced due to fall in prices. Moreover; payment of old debts had stopped due to the incapacity of the peasantry and hence new loans could not be advanced. Even the co-operative societies were faced with some difficulties and their advances fell considerably due to the same reason.

Even if these measures were responsible for the contraction of credit it was not an unmixed evil. We have seen that the major portion of the rural debt was incurred for unproductive purposes. If the money-lender became more cautious, and that was one of the objects of the legislation, unproductive borrowing was discouraged and this meant that the cultivator had to learn to live within his means. As regard productive borrowing, there was no danger for the money lender to lose his money. Thus honest money lenders had nothing to fear from this legislation.

Further, it was alleged that the measures encouraged default of repayment of debt among the people. Even debt owed to government and co-operative societies were not paid. The debtors expected them to be reduced. This sort of demoralisation, however, was not common. This could be avoided if debtors were made to pay all the legitimate dues within their paying capacity. The real trouble was that adequate arrangement did not exist which could assist the debtor in the payment of reduced debt. The establishment of Land Mortgage Banks could supply this need, they could arrange for cash payment on behalf of the debtor and realise the amount in small instalments over a period of say 20 to 25 years. Another way was for the government to come forward with assistance as was done by the government of Bhavanagar. There the state took over the entire debt after it had been reduced from Rs. 86.4 lakhs to Rs. 20.5 lakhs between 1930 and 1934 and arranged for its recovery with 4% interest along with the land revenue over a period of 25 years.

It was also said that in some cases the resources of the debtor were so meagre that he was unable to pay even the reduced debt. For this a simple Rural Insolvency Act was necessary. There was an Insolvency Act passed in 1920, but it was intended only for debtors owing more than Rs. 500. Since the courts did not allow the benefit of the Act to debtors whose rights were protected from sale in execution the, Act was not helpful to the cultivators. The Royal Commission on

Agriculture recommended amendment, enabling debtors of less than Rs. 500 to have its benefit. This recommendation was given effect to in C P. and Berar and the Punjab. The Bengal Agriculturist Debtors' Act 1936 also contained Insolvency provisions. In other provinces no such provisions existed. Similar insolvency provisions could have been made in other provinces

Further, it was pointed out (e.g., C. P. Land Revenue Report 1937) that after the debt had been reduced and instalment fixed, the debtor found it difficult to secure new credit until the last instalment had been paid. To avoid this difficulty the Conciliation Boards should have allowed adequately for the current needs of the debtor while fixing his capacity to pay.

Another objection was that the limit of the debt which could be conciliated was fixed too high in some provinces e g:, Rs. 50,000 in C. P. and Rs 15 000 in Bombay. This minor matter could easily be set right by an amendment.

Further Criticism related to the effects of the Debt Legislation on the co-operative movement. Co operative societies no doubt were given a privileged position by the Acts. In the Punjab co-operative debts could not be touched by the Conciliation Boards In C. P and Berar, Madras, Assam and Bengal no settlement was valid without the previous written permission of the Registar Co-operative Society. In Madras the Agriculturists Relief Act of 1938 did not apply to co-operative debt. The reasons for this treatment are obvious Co-operative societies keep regular accounts, they are under government supervision and they are not profit making bodies. Moreover, their advances come out of the common fund of members and concessions to some may be detrimental to others But it should be remembered that some advances of co-operative Societies were bad debts and their writing off would be good for the movement. It would give a more realistic picture of their assets. Hence all debts co-operative and others should have been taken into account before the debtors' capacity to pay was fixed.

But the working of the societies was affected adversely by the debt conciliation as pointed cut by the Reserve Bank of India's Review in 1941. " Because in many provinces a member owing a debt to his society can file an application before a Conciliation Board and suspend payment of his instalment until the award is made by the Board and approved by the Registrar, thereby directly freezing the funds of the society irrespective

of the ultimate outcome of the application. Large amounts of co-operative funds have thus been locked up and the different processes of unfreezing them are hindered by wilful default and the disinclination towards debt repayment which has proved infe ctious and which is not enlightened by a due sense of discrimination between co-operative and other debts."[1]

13. Creation of Alternative Agencies.—Another way of approach to the the problem was the creation of alternative agencies of finanicing the productive needs of the agriculturist. Of these the co-operative credit society is the most important which we shall discuss in the next chapter. Here we may take note of the legislation passed by the government under which loans were advanced by the government to the agriculturist for specified purposes.

At the recommendation of the Famine Commission of 1880 two Acts were passed in the eighties of the last century *viz.* the Land Improvement Loans Act, 1883 and the Agriculturist Loans Act, 1884. The former provided for the supply of long term credit for permanent improvements on land like construction of wells and embankments. The latter provided for short term loans for current agricultural needs like purchase of seed, implements, manure and cattle. Loans under these acts have greatly helped the agriculturist especially during calamities like famines and floods. But their scope is limited and they contain inherent defects which have stood in the way of their popularity. Their chief defects from the point of view of the agriculturist have been : endless delays in getting the loan due to red tapism, rigid enforcement of repayment, petty exactions by the officials etc. The peasant was more attracted towards the money lender because he asked no questions, loaned promptly, never pressed for repayment, and was generally obliging. Even at best the government can only supply very limited needs of the peasant, hence the need for some other agency.

14. Present Position in Pakistan.—Such was the position of agricultural credit and debt before the creation of Pakistan. The partition changed the situation considerably. The money-lending classes, being mostly Hindus and Sikhs migrated to India especially from Western Pakistan. High prices had reigned since 1941 which had not only reduced the real burden of the debt but also had enabled most debtors to pay off their obligations to money-lenders. No enquiry has been made since the partition

(1) Reserve Bank of India. " Review of the Co-operative Movement in India ". P. 9—10.

into the debt situat on in Pakistan. Presumably rural indebtedness ~~has ceased to be a problem for the time being.~~ But the necessities of agricultural finance remain. The old and most important agency, the private money-lender, has disappeared. Unless co-operative credit fills the gap adequately some new agency or the private money lender will appear sooner or later. If our suggestions regarding the reorganisation of the whole agricultural economy could be implemented, rural indebtedness need not arise as a problem again. The co-operative villages will have a proper egency for finance which will be the integral part of the new organisation. In the mean-time the needs for credit are on the increase especially on account of the situation created by the influx of millions of resourceless refugees from India. The recent floods in the Punjab have made this need all the more pressing in this province. Co-operation appears to be the only satisfactory solution.

CHAPTER IX

CO-OPERATION

1.—Introduction.—The world today is torn between two ideologies. The one has reached its high water mark in the American industrial system and the other has manifested itself in the socialist state of the U. S. S.-R. The former system is commonly known as 'Capitalism' and the latter 'Communism'. Neither of these systems are pure embodiments of what their theories claim. But they have definite characteristics of their own which distinguish one from the other.

Capitalism is based on private ownership of the means of production and freedom of private enterprise. The pivot of this system is the profit motive which moves individuals to labour, to organise and to take risks. Though monopolistic organisations have developed in various fields and economic life is controlled and regulated by the state in diverse ways, on the whole the system allows free competition in economic matters. Prices, wages, interest, profit and rent are all determined under more or less free operation of the forces of supply and demand, within the legal frame work established by the state. Individual freedom has been claimed as the greatest boon of this system, even though such freedom involves economic insecurity for the less fortunate.

Soviet Communism on the other hand is based on socialisation of the means of production and does not permit free enterprise. Production is carried on under a planned system enforced by the sovereign power of the state, exercised through a virtual dictatorship of the Communist party, which is a minority of the population. Each man must find his place as indicated by the exigencies of the plan. The system seriously encroaches upon individual freedom, though it ensures employment, and care in sickness and old age and thus grants a maximum of economic security.

Both the systems have their weak and strong points. There is a growing body of opinion, however, which regards both of them as undesirable extremes. It is suggested that a combination of the best characteristics of Capitalism and

Communism could be achieved if economic life of a community were to be organised on co-operative basis Under such a system individual freedom and private property in the means of production could be preserved without the concentration of economic power which is the bane of Capitalism. On the other hand instead of the personal greed encouraged by a system run on profit motive, a sense of collective good could be inculcated among the people without the regimentation of their lives involved under a full fladged Socialistic society In this chapter we propose to study the application of the co-operative principle in the various fields in the sub-continent, of India and its possibilities as an instrument and agency in the planning of the economic development of Pakistan.

2. What is co-operation.—" Every group of individuals," says Strickland, " associated to secure a common end by joint effort may be said to co-operate ; for instance, a football team, a gang of robbers, or the share-holders of a speculative company. A century of history has given to Co-operation with a capital 'C' a more precise meaning. It indicates the association of individuals to secure a common economic end by honest means ; it is also essential in many forms of co operation that the individuals possess a personal knowledge of one another."

" The basis of association," continues the same writer, " is (i) voluntary, (ii) democratic , voluntary becausr those only enter it who feel the economic need at which it aims , democratic, because those who feel a real need will be men of modest status,

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1 Some oft-quoted definitions of Co operation are given below —

(i) " The theory of co operation is very briefly that an isolated and powerless individual can by association with others and by moral development and mutual support, obtain in his own degree, the material advantages available to wealthy or powerful persons, and thereby develop himself to the fullest extent of his natural abilities By the union of forces material advancement is secured, and by united action self-reliance is fostered and it is from the inter action of these influences that it is hoped to attain the effective realization of the higher and more prosperous standard of life which has been characterized as better business, better farming and better living "

i Maclagan Committee Report, para 2

(i) " Co-operation is the act of persons, voluntarily united, of utilising reciprocally their own forces, resources or both under their mutual management to their common profit or loss ' Harricks. Rural Credits quoted by Calvert the Law and Principles of Co-operation, p 12

(iii) ' Co-operation is self-help made effective by organisation," Plunket Co-operation, p. 7.

who, if only the honest are admitted, will not resent equality, will in fact meet most easily on an equal footing."[2]

Thus three characteristics of a co-operative society are notable : (*a*) it is voluntary, (*b*) it is democratic (*c*) the moral element in its aims is as important as the material.

Co-operation is voluntary because no person is forced to become a member of a co-operative society. He becomes member only if he himself feels that joining the society will be to his good. Co-operation gives economic security through self-help without external pressure. " Economic security could conceivably exist with a high degree of material prosperity in the slave state but at the price of slavery."[1]

Co-operation is democratic, because a co-operative society functions through a committee elected by members on the basis of 'one man one vote'. The membership of a co-operative organization is open to any one who wishes to join it and can derive benefit from it. In the distribution of the profits also the democratic principle is preserved. Only a limited amount of profit accrues to those who contribute capital. The surplus either goes to build up reserves to strengthen the financial back bone of the society or is distributed among the members in proportion to their dealings with the society.

The third basis of co-operation is its moral outlook. It seeks to avoid exploitation of man by man. It gives equal opportunity to all and aims at creating the habit of self reliance and mutual aid among the members. It does not merely teach better business but stresses the importance of better living.

The scope of the co-operative principle in its practical application as wide as life itself. In the economic field a co-operative society can be organized for a vast variety of purposes. Production, finance, marketing are the well known fields. You can have societies for better living, education sanitation improvement in social customs etc.

In a planned économy co-operation can play a very significant and effective role. It can make planning democratic. The local co-operative society can act in a dual capacity. It can educate public opinion and awaken interest in the purposes of the plan and see that these purposes are properly implemented

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2. Strickland : Co-operation in India, pp. 15-16.

(1) Quoted by " Co-operative Planning Committree " Report (1946) P. 4 from Co-operative organization and Post War Relief ", Published by International Labour office.

within the area of its influence and jurisdiction On the other hand, it can keep the state authorities informed of the views, aspirations and reactions of local opinion Further, it can act as the economic unit through which the purposes and programmes of the plan can be realised

One special feature of the co-operative principle of organization is its adaptability It is significant to note that capitalistic societies and socialistic societies have adopted this principle for their purposes While on the one hand it is open to dispersion of economic control into local units, on the other hand it is capable of achieving a high degree of concentration of control through the method of creating federations of smaller units

3 Genesis of Co operation in Pre Partition India —The co-operative method has been tried in various counturies like Germany, France, Denmark and Sweden with great success It can be used, as we have noted, in the field of finance, retail and wholesale trade, production in general, in fact living in general

In India its aid was sought primarily to solve the problem of the growing menace of Agricultural indebtedness Later it was extended to othet fields as well, though credit co operation has always remained the most important field in this sub continent.

Co-operation as a movement in India was already 43 years old when the country was partitioned in 1947 It would be instructive to trace its history and achievements befote the emergence of Pakistan

During the closing decades of the 19th century India was faced with the problem of rural debt, which was assuming menacing proportions, About this time the success of small village banks in Germany and Italy attracted the attention of those who were anxious to solve this problem Mr Frederick Nicholson, a Madras civilian was deputed by the Provincial Government to study the system and his report was published in 1895—97 About this time Mr Dupernex in the United Provinces and Edward Maclagan and Captain Crothwaite in the Punjab were organizing credit societies which could be registered under the ordinary company law The Famine Commission of 1901 strongly recommended the introduction of credit associations The result was the passing of the Co-operative Credit Societies Act in 1904

4 The Act of 1904 —The object of this Act was " to encourage thrift self help and co-operation among agriculturists,

artisans and persons of limited means." The societies were to be either rural or urban. Generally speaking in the organization of rural societies the principles of Raiffeisen and in that of urban societies those of Schulze—Delitzsch (both pioneers of Co-operation in Germany) were followed. Raiffeisen societies have ten or more members, joint responsibility about capital, unlimited liability, membership restricted to a village, no, entrance fee and no dividends. The Schulze model has wider membership, distributes dividends and pays office bearers, charges entrance fees and has limited liability. The last one to attract capital from the better off people.

The Agricultural Commission (1928) pointed out three features of the new policy which all along influenced the course of the movement in India. "Firstly it was deliberately decided to restrict the operation of the Act to credit only. This was partly because of the importance of the problem of debt and partly the specially educative value of a credit society which could pave the way for other forms of co-operation. Secondly, the movement was not the out come of any popular demand. It was the government which was anxious to ameliorate the condition of the people. Public enthusiasm had yet to be created. Thirdly, it was inevitable under such conditions that a government department should be established to take charge of the movement, until unofficial workers were forthcoming." These features have stuck to the movement since its birth. It has been predominently a credit movement and the initiative and control have never passed out of the hands of the government.

Credit societies were formed under the Act of 1904, and by 1911—12 there were in India 8,177 societies, with a membership of 4,03,318 and working capital amounting to 3.35 crores. Soon, however, certain defects were discovered in the Act. In the first place it did not give legal protection to societies formed for purposes other than credit. Secondly, " the growth of the number of societies and the difficulty experienced in raising capital locally, gave rise to the question of establishing some form of contral organization to provide capital to local societies and also to supervise them[2]." Thirdly, classification into rural and urbran societies was found to be inconvenient and unscientific. This led to the passing of the Co-operative Societies Act,

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(1) Report Royal Commission on Agriculture P. 444-5.

(2) Report Co-operative Planning Committee (1946) appointed by Government of India. P. 5.

1912, which sought to meet these defects in the following manner :—

(*i*) Non-credit forms of co-operation affecting purchase, sale, production, insurance housing etc were recognized.

(*ii*) New organizations for supervision, audit and supply of capital, were recognized :—

(*a*) Unions consisting of primary societies for control and audit ;

(*b*) Central banks ; and

(*c*) Provincial banks for supply of capital.

(*iii*) Instead of the old distinction between rural and urban societies, a more scientific distinction was made between those with limited and those with unlimited liability. The liability of a society of which the members were registered societies was to be limited. Societies which aimed at provision of credit and the majority of members of which were culivators were to have unlimited liability. The others were left to the option of the members in this respect.

The Act of 1912 considerably stimulated the growth of the movement. The number of societies their membership and working capital increased steadily. New kinds of societies were formed *e.g.*, those for sale of produce, purchase of manures and farm implements and other necessaries of the cultivator. In October 1914 the government appointed a Gommittee—Maclagan Committee-to investigate whether the movement was developing on sound lines. This Committee in its report (1915) made far reaching proposals for the development of the movement.

6. **Co-operation—a Provincial Subject.**—After the end of the war and passing of the Reform Act of 1919 the movement entered its second phase. Under the new constitution Co-operation became a provincial transferred subject under the control of responsible ministers. During the early years of the new reforms various provinces tried to mould the movement according to their own needs. The province of Bombay led the way by passing a separate Co-operative Societies Act in 1945. The Provincial Government encouraged non-official institutions for propaganda and education to promote the movement. Some provinces appointed Enquiry Committees to study the progress of the movement and to make recommendations. The principal inquiries were those undertaken by the King Committee (1922) which caused the decentralization of control and finance in the central provinces, the Oakden Committee (1926)

which brought about a transfer of the supervising staff in the United Provinces from the Central Banks to the Provincial Unions. The Townshend Committee (1928) which sought to remedy the evils of lending on the basis of material assets rather than on character in Madras societies, and the Calvert Committee (1929) which pointed out that the help of trained officers had been unwisely replaced by guaranteeing unions without expert knowledge in Burma.[1] The Central and Provincial Enquiry Committees (1929-31) made numerous recommendations in this respect. They specially stressed the need for giving relief from ancestral and accumulated debt.

7. **Impact of Depression.**—The movement showed rapid expansion until 1929 when the world wide Depression again made prominent the defects which had been pointed out by the Maclagan Committee as early as 1915 and which had been concealed by the conditions of post-war high prices and prosperity.

With the Depression the movement received a serious set back. This may be regarded as the third phase of its development. Agricultural prices fell disastrously. Between 1929 and 1933 the value of agricultural produce in the Punjab, the best province from the point of view of Co-operation fell by 50%. Similar developments took place in other parts of India with depressed income of the farmer, with the burden of his debt increased, his capacity to pay back his obligations decreased. He just managed to live upon his past accumulations which were available, if he was lucky, in the form of gold or silver ornaments of his women folk. In most cases he had to resort to the money lender to help him out. Condition of co-operative credit societies was bound to deteriorate under these circumstances. A number of Committees of Enquiry were appointed in different provinces to suggest ways and means of meeting the situation. In 1934 an experienced co-operative officer was deputed to consider means by which the Reserve Bank of India could assist the recovery and progress of the movement. He recommended a more thorough training of the co-operative staff and a sustained teaching of the co-operative principles to the members. Courses were thus arranged in several provinces to echieve these ends. In 1937 an enquiry was made into the movement in Bombay province by Messrs Mehta and Bhansali. In 1939-40 an enquiry was conducted in Madras by the

(1) See Strickland : Co-operation in India P. 60.

Vijayaraghavacharya Committee. Partly as a result of these enquiries various provinces of India passed their own Co-operative Societies Acts to meet their local problems Bombay's lead given in 1925 was followed by Madras (1932) Bihar and Orissa (1935) Coorg (1937) and Bengal (1941) On the whole the decade before the World War II was a period of consolidation, rectification and rehabilitation in the history of the movement. There was little expansion and official control was tightened.

8. *World War II and After.*—With the World War II the movement entered its fourth phase. With the rise in agricultural prices the condition of the peasantry improved The members were thus in a position to repay their debts to the societies This improved their financial position Further, the deposits of central banks increased and the demand from affiliated societies for loans decreased Many banks were thus faced with the problem of surplus funds. In the country a spirit of planning was abroad. Even before the war ended various schemes for post war economic reconstruction were put forward e g, the Bombay Industrialists Plan, the Second Report on Reconstruction Planning issued by the Reconstruction Committee of Council of the Government of India All these planning schemes gave an important place to the Co-operative movement as a suitable agency for carrying out the purposes of the plans.

As a result of a resolution passed by the 14th Conference of Registrars of Co-operative Societies in 1944, the Government of India appointed a committee consisting of 12 members under the chairmanship of Mr R G Saraiya, Chairman, Bombay Co operative Provincial Bank The Committee was appointed in January 1945 its terms of reference being " to draw up a plan of co-operative development ". The Committee reported in 1946. Their recommendations covered almost every aspect of co-operative activity. This Committee made a large number of recommendations for the reorganization of the movement They specially stressed the importance of Co-operation in any plan of economic development of the country Regarding the causes of limited progress of the movement in India they attributed it to " the Laissez Faire policy of the state, the illiteracy of the people, and the failure of the movement to tackle the life of the individual as a whole The other causes being the small size of the primary unit and undue reliance on honorary services with resultant inefficiency in management[1]."

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(1) Co-operative Planning Committee Report p 12

No notable development took place between the end of the war in 1945, and partition of the country in August 1947.

9. *Progress of the Movement.*—The following table gives an idea of the growth of the movement in pre-partition India.[2]

All India Figures.

Years.	No. of societies (1,000)	No. of members primary societies (lakhs)	Working capital (Rs. crores)
Average for 5 yrs. ending 1914-15	12	5.5	5.48
" " " 1919-20	28	11.3	15 18
" " " 1924-25	58	21 5	36.36
" " " 1929-30	94	36.9	74.89
" " " 1934-35	1,06	43.2	94.61
" " " 1939-40	1,17	50.7	104.67
For the year 1942-43	1,46	69.1	121.14
" " 1945-46	1,72	91.6	164.00

The progress of the movement, however, was not uniform. This is indicated by the table given below :—

Based on the figures for 1945-46.

Pre-partition (Major) Provinces.	Population millions.	No of societies per lakh inhabitants.	No of members of primary societies per 1000 inhabitants	No. of annas of working capital per head of population.
Madras ...	51.8	30.7	36 0	118 3
Bombay ...	21.9	33.1	49.1	258.6
Sind ...	5.0	18.9	13.8	149.8
Bengal ...	62.3	69.5	26.9	59 2
Bihar ...	38.3	24.2	6.8	11.7
Orissa ...	9.2	34.6	16.9	29 3
United Provinces ...	56 5	37.9	15.3	14.2
Punjab ...	29.9	90.3	37.8	129.1
Central Province & Bihar	17,8	37.2	10.9	49.3
Assam ...	10.5	24.6	16.9	23 8
N.-W. F. P. ...	3.5	31.0	9.6	24.7
Total all Provinces ...	309.0	45.3	24.6	74.7

(1) Compiled from the "Statistical Statement Relating to Co-operative Movement in India" published by Reserve Bank of India.

Pre-partition (Major) States.	Population millions.	No of societies per lakh inhabitants	No. of members of primary societies per 1000 inhabitation	No of annas of working capital per need of population.
Mysore ...	7 8	32 4	28.8	74.0
Baroda ...	3.	44.4	38 3	94 6
Hyderabad ...	17.1	67.5	31 5	49 9
Travancore ..	6 6	24 5	30 7	22 4
Kashmir ..	4.4	88.3	24 1	36.4
All States ...	61.3	52.3	25 5	51.3
All India ...	370 3	46.5	24 7	70.9

The above table shows that the Punjab and Bengal were leading in the matter of the number of societies. As regards membership Bombay stood first, Punjab came after and was followed by Bengal. As regards working capital Bombay topped the list, followed by Sind which in its turn was followed by the Punjab. Thus Pakistan areas, especially the Punjab, were comparatively well advanced in Co-operation. On the whole, however, the movement had onlyaffected a small portion of the population of the country.

10. **Effect of Partition.**—The partition, as we have already noted somewhete, was accompanied and followed by the mass migration of people from one Dominion to the other. The migration of non-Muslims from Pakistan, especially Western Pakistan left the economy of the country in a state of paralysie. In the words of the Marketing and Co-operation Adviser to Pakistan Government, " lakhs of money-lenders, who had financed the crops, were gone, thousands of co-operatives were rendered ineffective as Secretaries, Managers, Cashiers, Accountants etc. had left and hundreds of branches of Joint Stock Banks closed due to the departure of their staff[1]." "The banking organization," says the State Bank Report, " suffered what appeared to be irreparable damage and almost all the banks closed their doors or curtailed their activities."[2]

(1) S. A. Hussain : " Co-operation a Way of Life " Co-operation and Marketing Review. April 1930, pp 216-17

(2) State Bank of Pakistan : Report of the Central Board of Directors 1948-49, p. 3.

Thus the same causes that curtailed the activities of the co-operative created greater work for them. The gaps caused by the migration of Hindus in the field of agricultural cradit, financing of cottage industries, marketing of produce both industrial and agricultural and banking operations in general, had to be filled. The Pakistan areas were already less developed with respect to modern financial insitituons. The institutions and individuals who carried on the functions of finance and trade were predominantly non-Muslims. Their leaving the country—and with their assets in most cases—at such short notice, was bound to paralyse the economic life of the nation, Crops were rotting for want of marketing facilities, the agriculturist and the artisan did not know which way to turn for credit facilities. There was large scale unemployment among the cottage workers the producers of hand-made and artistic articles, the market for which either existed in India, the trade relations with which country had almost stopped or in other foreign countries with which the non-Muslims had developed trade links. The wholesale, retail, import and export trade all suffered in varying degrees. More over refugees from India poured into Pakistan in lakhs. Among them were small agriculturists and artisans whose credit needs had to be looked after and they had to be fitted into the economy of their new home land. Added to that was the problem of the post war resettlement of the retired military personnel. The only agency which could come to the aid of the people was the co-operative organisation which in its turn had suffered through losing its trained staff. This vicious circle had to be broken. And it was broken through the sheer pressure of necessity and the grim determination of the people to see that Pakistan was made a success. Under the leadership of the Provincial Co-operative Departments the existing societies were vitalised and new societies formed as the need arose. Before the year 1947 was out the outlook was entirely changed. The credit societies began to function and advance loans. Co-operative Central Banks, especially in the Punjab and N-W. F. P., not only financed the movement of agricultural produce but also took up commercial banking. In the field of production flour milling, rice husking and cotton ginning was undertaken by single or multipurpose societies. The artisans and technicians coming from India were provided occupations through the formation of industrial co-operatives. Societies were formed for spinning, weaving, manufacture of footwear and other leather articles etc. Within a few months

their turnover ran into crores. "By the end of 1947, the prices were stabilised, confidence was restored and the financing and marketing of agricultural produce were fully resumed."[1]

11. Province-wise Position in Pakistan—The post-partition position of co-operation in the provinces of Pakistan is revealed by the table[2] given below :—

Province		Societies	Members	Working capital.
				Rs. crores
(Pak) Punjab	...	15,000	8,38,000	22.0
Sind	...	2,000	1,00,000	7.5
N.-W. F. P.	...	2,000	50,000	1.3
E. Bengal	...	26,000	10,00,000	19.0
Bahawalpur State	...	400	12,000	.2
Total Pakistan	...	45,400	20,00,000	50.0
Indian Union	...	1,00,000	80,00,000	100.0

The above table shows that relatively to the size of the country and its population Pakistan is more advanced in the field of Co-operation than India. While Pakistan's population is one quarter that of the Indian Union the number of co-operative societies in Pakistan is 45%, their membership 25% and working capital 50% those of India. The percentage of working capital is more significant because that reflects the scale of operations of the societies.

Among the provinces of Pakistan the Punjab leads as was the case even of the Punjab of pre-division days. The population of the Punjab is about 20% of the total population of Pakistan but the province has 33% of the total number of societies 40% of their membership and 44% of their working capital. Assuming the total population of Pakistan to be 8 crores and assuming that each member of a co-operative society represents a family of five, the total population affected by the

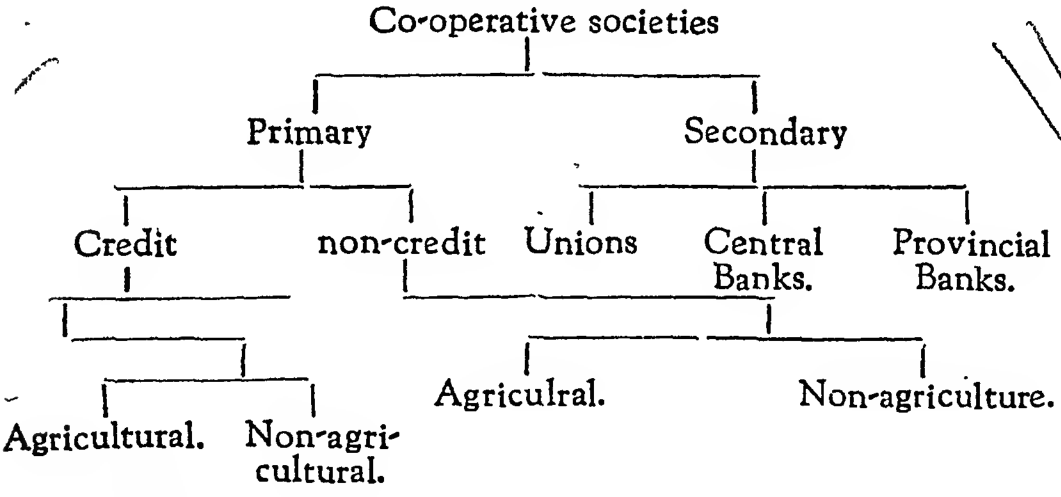
(1) S. A. Hussain op cit P. 117.

(2) Table taken from "Co-operation in Pakistan" by K. M. Bashir Ahmad Khan. Hon. Secretary All Pakistan Co-operative Association. Pakistan Economic Journal Vol. I,-No. 1, p. 79.

movement is one crore, or 12% of the total population of Pakistan. On this basis also the Punjab stands first. The population of the Punjab is 1.6 crores and the population affected by co-operation 8 4×5 or 42 lakhs or over 25% of the total. In the case of East Bengal. This percentage is only 12½%, in N.-W. F. P. 12%, and Sind 11%.

Not only quantitatively but qualitatively also the Punjab leads in the movement. In the newer forms of co-operative adventure it is the Punjab which has mostly taken the initiative *e.g.* in co-operative farming, in multipurpose societies etc. As the working capital of Punjab societies shows their financial position is also better than societies in the other provinces.

12. Structure of the Movement—The following diagram indicates the structure of the Co-operative movement as developed in the Indo-Pak sub-continent :—



Before we proceed further, it is necessary to say a few words about each of these forms of co-operative organization and its functions. We shall start from the apex the Provincial Bank and come down to the primary.

13. Provincial Co-operative Banks.—Each province has a Provincial Co-operative Bank which is the apex of the movement in the province. These banks finance, co-ordinate and control the working of Central Banks of the province. They serve as clearing houses for the excesses and deficiencies of the working capital of Central Banks. They serve, moreover as a link between the general money market and the co-operative primary societies in the villages. Generally speaking

the apex bank does not deal directly with primary societies, but through Central Banks, except in areas in which Central Banks have not developed. In Sind, since Central Banks ha...

different provinces. In Sind, for instance, the membership is open to societies and individuals, in East Bengal and the Punjab only societies can become members. Their financial position is much sounder than that of the Central Banks

Since the Provincial Co operative Bank of undivided Bengal was situated at Calcutta, East Bengal had to establish a new Provincial Bank. This was done in April 1948 under the name of East Pakistan Provincial Co-operative Bank. This Bank, not only finances the credit movement through Central Banks of the province, but also undertakes commercial banking as has been the practice of other Provincial Co-operative Banks of Pakistan since the partition

14. Central Co-operative Banks.—The Central Banks have been organised since the passing of the Co-operative Societies Act, 1912, to finance the primary societies and to act as their balancing centres. Such banks make it possible to draw capital from a wider field for the benefit of primary societies They also help in adjusting and balancing the excesses and deficiencies of working capital of primary societies within the area of their jurisdiction. Besides financing societies they do other banking business like accepting deposits, collecting bills, cheques etc. Sometimes they also advance loans to individuals against real property. In Pakistan after partition these banks took to cammercial banking to fill in the gap caused by the closing down of joint stock banks. Their area of operations varies. Sometimes it is a districts and some times a tahsil as the circumstances require. In Sind their operations extend over a taluka and they are called Taluka Co-operative Banks. In N-W. F. P. since the partition, the District Co operative Banks have been merged into the Frontier Co-operative Bank, which has an all province jurisdiction, analogous to Provincial Co-operative Banks of other provinces

Central Banks may be mixed or pure. Membership of mixed Central Banks is open to individuals as well as to societies The pure type is a truly federal Central Bank and admits only ... s regarded as the ... the Punjab and ... Union.

An enquiry into the working of Central Banks by the Reserve Bank of India in 1940-41, showed that in some provinces, which included the Punjab, they were in a sound condition, while in others which included Bengal, their condition was not satisfactory. In general these banks showed excessive over dues and had bad debts which in many cases exceeded their owned funds. Their failure was attributed by the Reserve Bank Review to reckless over financing of societies, inefficient supervision, disregard of sound banking principles and defective organization of primary units[1].

Their present position in the Pakistan Provinces is quite sound.

They have done yoeman service to the people since the partition, especially in the Punjab and N. W. F. P. Though the Central Banks were primarily created for financing primary societies, these banks after partition assumed the role of Joint Stock Banks to overcome the banking crisis that faced the country. They helped the government and the general public by undertaking commercial functions. In the Punjab, for instance, they were appointed agents for the purchase and sale of cloth, agricultural commodities and controlled articles. They financed individuals, members and non-members, by advancing loans against stock-in-trade, jewellery, agricultural produce and trust securities. They managed in the Punjab, during the first year after partition, 40 purchase centres of rice and 106 rice husking mills. Their total advances to societies and other dealers were Rs. 1.5 crores, Rs. 3.5 crores, and Rs. 2.5 crores in 1947-48, 1948-49 and 1959-50 respectively[2].

In the Frontier Province co-operative banks achieved similar results. Not only a Frontier Co-operative Bank was established but the four existing Central Co-operative Banks were amalgamated with it. The constitution of the bank was so changed that the bank could make short term advances to individuals and firms, other than co-operative societies on security of goods, and jewellery and bills. " Drafts and Bills of businessmen throughout the Province " wrote the Registrar Co-operative Societies of the province in 1949, " are being handled by the Frontier Co-operative Bank. The working capital of the Bank is now about two crores as compared with

(1) Review of the Co-operative Movement in India p. 12.

(2) Ch. Sultan Ahmad (Educational Assistant Registrar Co-operative Societie sPunjab) " Recent Trends in Co-operative Movement in the Punjab." Co-operative and Marketing Review October 1950 P. 322.

28 lakhs just before the partition[1]." The Bank financed the Frontier Sugar Mill and Distillery Limited and helped generally in the revival of trade, safeguarding the consumers against profiteering and black-marketing on the part of the new enterprisers who took the place of trained and experenced non-Muslims after the latter's migration.

The present position of Provincial and Central Banks in Pakistan is given below :—

No : of Banks	...		139	
No : of members	...		56,379	
Share capital	...	Rs.	90.84	lakhs
Reserve etc.	...	Rs.	242.83	"
Working capital	...	Rs.	2509.62	"

15. Co-operative Unions.—While the membership of provincial and Central Banks is open to individuals and societies, the members of Unions are only societies.

Unions may be of three kinds :—

(a) Guaranteeing Unions (as in Bombay and Burma in the past).

(b) Supervising Unions (as in Madras and Bombay).

(c) Banking Unions (as in the Punjab).

Unions are federations of societies within a certain area, managed by a committee representing the member societies. The Unions perform the functions of supervision of primaries and also serve as links between them and the central financing institutions. The system of supervision has not been found satisfactory. It is supecificial and overlaps with the work done by the inspecting staff of the financing agencies. A banking union could do the work of supervision in addition to financing. And this is the usual practice in Pakistan.

16. Primary Societies Agricultural Credit.—A primary Agricultural Credit Society can be formed by ten or more persor [illegible] for registration to the Regist [illegible] Each province has one such [illegible] Provincial Department of Co-operation. The area of aperation of such a society is usually a village. This is to ensure mutual knowledge and

(1) " Review of Co-operation in N. W F. P. by Mohammad Yunus Khan Registrar Co-operative Societies N. W. F. P. Pakistan Economic Journal Vol. I No. 2. P. 42.

supervision on the part of members. The liability members is unlimited. The idea is to inspire confidence in the minds of the outsiders and to stimulate mutual control and supervision among the members. The working capital is derived from entrance fees, deposits and share capital, if any, of the members. Among the Pakistan provinces it is only in the Punjab that share capital is issued. Capital is also secured from outside loans and deposits from government, from other societies and from central and Provincial Banks.

Loans are given to members for (*i*) productive purposes like (*a*) short term credit for current agricultural operations and (*b*) long term credit for permanent improvements of land, (*ii*) for unproductive purposes in moderate amounts *e.g.*, for marriage ceremonies etc. and (*iii*) for redemption of old debts. Loans are usually given on personal security and sometimes on security of property etc. Repayment is allowed on easy instalments. In the case of disputes arbitration is provided for to discourage litigation. The Registrar can disolve a society if it does not improve its working in spite warnings.

Every society is required by law to build up a Reserve Fund, to which all profits are credited in the case of societies with no share capital. In the case of others, 25% of profit is carried to this fund. Ten per cent of the profit, if the Registrar allows, can be spent for charitable purposes.

Accounts of the society are annually audited by officers deputed by the Registrar. The societies enjoy certain privileges like exemption from stamp duty, registration fee and income-tax. Their shares cannot be attached and they have a prior claim over creditors.

The management of an Agricultural Credit Society is in the hands of two bodies viz., the General Committee consisting of all the members and the smaller Managing Committee elected by the General Body. The current business is disposed of by the Managing Committee *e. g.* granting loans, admitting new members etc. The General Committee elects the Managing Committee, appoints the paid Secretary, amends by-laws etc.

The working of the co-operative credit societies in most of the provinces of pre-partition India was far from encouraging. In 1934, Sir Malcolm Darling found that during the thirty years life of the movement as much as 24 per cent of the total number of societies started had gone into liquidation. The percentage varied from 9 in Bengal to 49 in C. P. and Barar. This involved a prodigious waste of time, effort and money.

The Reserve Bank Reviewing the movement in 1940 found that the finances from the external sources played a disproportionately large part and the Reserve Fund in many cases was created without making any provision for bad debts, and was often invested in the societ's own business[1]. The conclusion of the Reserve Bank was that the element of thrift in the movement was small. "Indeed the financial distributory system" in the words of the Reserve Bank Review, "is largely a channel for t[illegible]
through the [illegible] s
and thence t[illegible]
of societies.[2]"

In addition to the initial weakness the Depression of the thirties hit the credit societies hard. Their position deteriorated considerably. At the end of 1939-40 one half of their outstanding loans of Rs. 23.14 crores were overdue. This percentage was 46 in 1940-41. That co-operative credit was contracting in pre-division India is revealed by the fact that during ten years ending 1938-39 there was a drop of 50% (from Rs. 12.55 crores to Rs. 6.75 crores) in the amount of fresh loans issued to individuals by agricultural societies.

Another indication of the weakness of the movement was that in four provinces of pre-partition India over 4% and in three provinces about 25% of the total number of societies in 1940 fell under D and E Class ('bad' and 'hopeless') and only 10% in six provinces came under A and B class ('very good' and good'). Further in 1939-40, "nearly 9% of the total number of existing societies were in the process of liquidation, the percentage being more than ten in respect of seven out of the eleven provinces and as much as twenty-eight in one instance[3]".

The immediate causes of the stagnation were the economic depression of the thirties and to some extent the debt legislation. The latter adversely affected the societies because in many provinces a member owing a debt to his society could file an application before the Conciliation Board and suspended payments of his instalments until the award was made by the Board and approved by the Registrar, thereby directly freezing the funds of the society irrespective of the ultimate outcome of the application. Large amounts of co-operative funds were thus locked up

(1) Review of the Co-operative Movement in India op cit. P. 6.

(2) Ibid P. 7.

(3) Ibid P. 8.

paralysing the working of the movement. The basic cause of the weakness, however, lay much deeper, the most fundamental among these being the indifferent observance of the co-eperative principles during previous years of comparative prosperity.

During the World War II the financial position of the credit movement improved considerably, because of the pre-vailing high prices of the agricultural commodities and the ability of the members to honour their obligations to the societies. The same conditions prevailed during the two years between the end of the war and partition of the country. The rehabilitation of the movement however, was of different degrees in different provinces due to different local conditions. On the whole the Pakistan provinces especially the Punjab and Bengal were among those which fared better due to their agricultural prosperity.

After the partition the need for agricultural credit increased due to the migration of non-Muslim money lenders. Agricultural credit societies, however, have not made much progress' during the post partition period, because attention has been concentrated on other forms of co-operation. Moverover, due to comparatively high prices of agricultural produce the cultivator has not been hard pressed for loans. In the Punjab for instance, in the words of an Assistant Registrar of the movement "the credit movement of the province has suffered a setback to a considerable extent, a good number of societies being in a moribund condition."[1] This is not a satisfactory state of affairs in a province which has always led in the matter of co-operation. A well organised system of credit cannot be dispensed with especially when the old sources of credit have dried up, and when " The Muslim money lenders, who are gradually springing up in the province, are believed to be un-business-like and rather more harsh then their predecessors[2]." This branch of co-operation thus needs more attention than given to it since the partition.

Even so the agricultural credit societies far out number any other type of societies in the Punjab. Out of a total of 13,935 societies, there were 7,908 agricultural credit societies in this province on 31st July 1249. Their membership exceeded 2 lakhs and working capital amounted to Rs. 2.11 crores.

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(1) Ch. Sultan Ahmad in Co-operative and Marketing Review of cit. P. 322-3.
(2) Ibid, P. 323.

All Pakistan figures also reveal the same position. Thus.—

	Total all societis	Agricultural credit societies	% of 2 to 1
	1	2	3
No. of Societies .	48,403	36,221	76%
No. of Members	21,00,648	9,25,952	44%
Share Capital paid-up Rs. lakhs	4,01·49	92 00	23%
Reserve and other Funds Rs lakhs	6,66 74	2,65 00	40%
Working Capital Rs lakhs .	39,65,05	7,02 26	19%

The above table reveals that three quarters of the total societies in Pakistan are agricultural credit societies. Their importance in membership, however, is less than half and in working capital about one fifth. Thus while their number is large their size is comparatively small and their operations very reststricted.

17. Agricultural Non-credit Societies—Agricultural non-credit societies did not develop to the same extent in pre-partition India as credit societies, and their number in Pakistan is also still comparatively small in spite of the new stimulous given to them in recent years

—Non credit co-operation did not progress at the same rate as credit cooperation in pre-partition India because of various reasons, among which were (*a*) The Act of 1904 made no provisions for such societies, and it was only after the Act of 1912 was passed, that such societies began to be formed (*b*) In other countries—e g, Europe and America—also the non-credit movement developed later and much slower than the credit movement, due to greater training and experience necessary for running non-credit societies (c) the industrial backwarness of the country and illiterary of the mass of the people also stood in the way (iv) Finally credit societies in many cases also

(1) Statistics taken from S A Hussain Co-operative and Marketing Review April 1950 op-cit P. 122

took up non-credit functions—such as purchase of implements seed and manures etc.

In later years, however, non-credit societies, specially agricultural non-credit societies, received considerable attention and showed good progress. They were introduced over a large field of agricultural operations e. g. sale of agricultural produce, production and sale of implements and manures, development of irrigation projects, insurance, consolidation of holdings, opening of state aided dispensaries and schools, introduction of improved methods of cultivation general village uplift etc.

The relative position of agricultural non-credit societies to agricultural credit societies in Pakistan is indicated by the table given below :—

	Agricultural credit societies.	Agricultural Non-Credit Societies.				
		Central	Marketing	Farming	Miscellaneous	Total
No. of Societies.	36,221	6	3,224	203	2,045	5,478
No. of Members	9,25,952	1,947	292,788	13,429	1,13,862	419,026
Share capital paid up Rs. lakhs.	92·00	8·38	66·24	·07	2·27	76·96
Reserve & other funds Rs. lakhs.	265·03	1·53	30·38	·82	4·96	37 69
Working capital Rs. lakhs ...	702·26	16·66	182,37	1·04	12·22	212·19

It will be seen that as regard number non-credit societies are only 13% of the total agricultural societies, but their membership is almost one third, share capital almost one half of the total and working capital one quarter of the total. These societies are thus larger in size and have much wider financial operations.

A few words about the progress made in Pakistan by the important types of non-credit societies will not be out of place here.

18. Co-operative Marketing.—Among the various kinds of agricultural non-credit societies marketing societies deserve special attention. This is not merely because they are the most

numerous in this category but also because of the very good work done by them in the various provinces of Pakistan since the partition.

During pre-partition days the agriculturist seller suffered from many disabilities some of which still persist. Because of these he failed to get a fair return for his produce. His indebtedness to the money-lender, his lack of reserves, defective transport facilities, lack of ware houses, lack of information about price movements, corrupt practices in the markets etc. all seemed to conspire to defraud him of his fair price. Marketing through co-operative societies was suggested as a remedy. But much could not be expected from co-operative marketing so long as the agriculturist was financially in the grip of the money lender. The money lender is no longer an obstacle in Pakistan. But some of the difficulties still remain. Transport facilities are still inadequate, proper ware houses do not exist and there is a serious lack of trained and honest personnel for purposes of running co-operative marketing societies.

In spite of these handicaps, however, co-operative marketing has made a fair progress in Pakistan. There are over three thousand marketing societies of which 2,327 are multi-purpose co-operatives and 397 afters which carrying in marketing operations alone. Their membership respectively is 2,10,111 and 82,677. They are found mainly in the provinces of East Bengal, Punjab and N. W. F. P. They have a paid up capital of Rs. 66 lakhs and working capital of Rs. 182 lakhs. The tendency is not to establish purely marketing societies but create multipurpose societies with marketing as one of their functions.

In the N. W. F. P. the activities of marketing societies were responsible for revival of trade after the post-partition crisis. These societies safeguarded the interests of consumers and producers against profiteering and black marketing on the part of inexperienced middlemen who entered the field of trade after the migration of non-Muslims "In the pre-partition period," in the words of the Provincial Registrar, "there were Syndicates for wholesale distribution of gram, cloth, sugar, and other controlled commodities and similarly there were retail depot-holders in villages and towns for retail distribution. As a result of partition these [illegible] properly and the Government [illegible] with regard to distribution of cer[illegible] Co-operative Department under[illegible]ative Whole sale Associations, which were multi purpose organisations. The main object of

these Associations were to arrange the import and distribution of necessities of life, agricultural implements etc. and also to arrange for the export of the produce. These Associations were federated into the Provincial body called the Frontier Co-operative Marketing Federation.

In the Punjab the multipurpose societies were also mostly established after partition primarily as marketing societies. The produce was rotting in godowns and there were no buyers since the Hindu middlemen had gone. Towards the end of 1947 paddy was selling at Rs. 2 and cotton at Rs. 6 a maund. It was thus that a chain of co-operative shops was opened in the important markets. They handled business relating to the purchase and sale of member's produce and supplied to them their various requirment as consumers and producers. In addition these societies ran rice husking mills, cotton ginning factories, flour mills, oil expellers etc.

In East Bengal, apart from 1,671 multipurpose societies, which also undertake marketing, there are 786 purely purchase and sale societies. These societies undertake marketing of paddy and rice produced by members. Some also own rice mills, one owns a match factory as well. One important society of Naogaon holds a monopoly of Ganja (a kind of intoxicant). In addition this society runs a number of primary schools, a veterinary dispensary and three charitable dispensaries. The society used to supply ganja to the whole of prepartition India, and made large profits. Since partition, however, its business has considerably contracted.

19. Co-operative Farming. The application of the co-operative principle to farming has been widely suggested as a compromise between capitalistic faiming and state farming on the one hand and small peasant farming on the other. It seeks to preserve individual rights in the means of production, land or equipment or both and at the same time secures the advantages of large scale operation in agriculture. Co-operative farming has been successfully tried in Italy, Bulgaria and Palestine. The Russian collective farm also has the dominant features of a co-operative farm.

In Italy two varieties of co-operative farming have been adopted (*i*) *Conduzione untia* in which land is cultivated jointly, the means of production are owned by the society and the members work on the basis of wages. The surplus profits after providing for reserves are distributed among the members in proportion to wages earned. (*ii*) *Conduzione divisa* under

which members cultivate their land (taken on lease) individually and the society supplies common services like credit, marketing, costly equipment etc. In Bulgaria most of the societies follow joint farming. In Palestine two types prevail : (*i*) The Farmers Settlement, in which the members work on the farm and own nothing not even wages. All their needs are looked after by the society; (*ii*) The "Small Holders Settlement in which members work as individual farmers and the society helps them in certain operations like cultivation of certain areas and crops, irrigation, sale of produce, purchase of requirements, which are undertaken collectively.

Thus co-operative farming can assume various forms. On the one extreme every thing, land equipment, labour etc. may be pooled and the workers may be ensured their subsistence and other essentials of life as is the case with the Farmer's Settlements in Palestine. On the other extreme the peasant proprietors may carry on their farming individually and only a few services like credit, purchase and sale may be provided. co-operatively. In between these extremes the co-operative principle can be utilised in varying degrees.

The Co-operative Planning Committee appointed by the Prepartition Government of India favoured the introduction of a method of farming which, without affecting any of the fundamental social institutions or customs and interfering with the frame work of private property, will give increased production.[1]" We would add that the system should not only give increased production through giving scope to the application of science to agriculture, but it should also ensure that the total produce after meeting costs etc. is distributed mainly among those who with their work have contributed to its production. A co-operative society, embracing a village or a collection of villages formed for the purpose of pooling the resources of the members for better farming and better living, is the best kind of organazationto achieve these purposes.

To come to greater details we would recommend the scheme put forth by Mr. Tarlok Singh in his book; " Poverty and Social Change," which has been widely commended as most suitable for conditions prevailing in India and Pakistan. This scheme was also endorsed by the Planning Committee above

(1) Report of cit p. 29.

mentioned. Although Mr. Tarlok Singh has called it the "Joint Village Management" the scheme in all essentials can be worked by a Co-operative Joint Farming Society.

The scheme sets out to answer three questions in this connection :—

(*i*) What should be the unit of Management.

(*ii*) How should the rights of ownership be rewarded.

(*iii*) How should work be organised and evaluated.

In answer to the first question the village is suggested as the unit of management, because of its common loyalties and traditions, its convenient size and occupational structure. Regarding the second and the third question the reply is that ownership in land should be rewarded separately from remuneration for labour and work should be allotted in such a way as to carry its own internal incentives. For instance, the cultivated area of the village may be divided into work units to be operated by an adult worker assisted by his family. The individual whom work unit will be allotted will pay a specified portion of the produce as rent. Out of this rent the ownership dividend will be paid to those who hold ownership rights in land and other expenses and obligations of the Community will be met.

About the nature of ownership Mr. Tarlok Singh says: "Ownership, however, will not now imply permanent physical possession over or association with a specific piece of land, nor will it imply the right to let that piece of land to a tenant-at-will in return for rent." The owner will only have the right to receive an income from the farm in lieu of his right of ownership. Further he will have the right to work on the farm. It will be possible, more over, to pass on the ownership to one's heirs though this will not involve the partition of a specified piece of land.

This system will thus retain ownership in land with all its advantages without giving the owner opportunities of using his ownership rights in such a way as to detract from the productivity of the soil. All this will be done voluntarily and democratically.

20. **Co-operative Farming in Pakistan.** A beginning has already been made in Pakistan in co-operative farming. At present this system is almost entirely confined to the Punjab. There are, however, a few colonization and collective farming societies in East Bengal.

Co-operative Farming Schemes have been introduced by the Government of the Punjab for rehabilitating the refugees especially the families of the military personnel. More than 200 socities have already been formed The land allotted to them is either crown land or land left behind by the migrating non Muslim landlords These aocieties cover 2,37,920 acres of land including 25,809 acres of vir[illegible] and have a me mbership of 11,765 [illegible] help their members in the economi[illegible] lds. Through them the members purchases seed and other of their agricultural and domestic requirements Through them they also satisfy their educational and religious needs. They further aim at providing dwelling houses, laying roads, lighting, drainage facilities etc.

[illegible] farming [illegible] (Chitta- [illegible] he Government and brought it under cultivation under its direct supervision. The members are landless labourers to whom the society has provided houses, each with a kitchen garden attached The adult members of each family have to work on the society's farm for wages paid on the basis of units of labour put in by each family The society maintains schools and charitable dispensaries Recently a number of collective farms have been established for settling refugees from India Three societies have already started work and more are expected to do so in the near future.

This aspect of co-operation needs full encouragement because it can, with the least bisturbance of traditional ways, achieve high levels of production and higher living standards for the rural masses, which otherwise would entail fundamental changes in the social and political structure of the eountry These societies can greatly facilitate the operations of economic plans by acting as instruments of implementations, of these plans and mirrors of public opinion in rural areas

21. Co-operative Multipurpose Societies. An other tendency in co-operative practice in recent years has been the establishment of what are called Multipurpose Co-operative Societies. The idea is not to organise separate societies for different purposes like marketing, supply of seed, better living etc. but to have one society which should help the peasant in every aspect of his social and economic life.

It was as early as 1937 that the question of organizing multipurpose societies was mooted in pre-division India. The occasion was the appearance of the Reserve Bank of India's report on the Banking Union at Kodinar which was followed by on other bulletin of the Bank on Co-operative Village Banks. The Bank recommended the formation of such societies in the following words :—

"If the problem of agricultural indebtedness is to be solved through co-operation—and co-operation affords the best means for solving it—the co-operative movement must give up dealing with its members piecemeal and must cater for all their wants. Their objects must be comprehensive. There must be multipurposes societies. For whatever apparent purpose a society is started it must serve as a point of contact and gradually other purposes must be developed so that ultimately the whole of man is dealt with. That should be the goal set before the movement."

In a later publication the Bank suggested the steps through which gradually one purpose after another should be brought under the control of the same society. "Starting with credit for current needs, a society may get the old debts of its good members liquidated. Through a land mortgage bank, introduce better business and better monetary return by inducing its members to sell their produce co-operatively, ensure their growing of the improved varieties of crops by purchasing seeds for them, save on purchases by arranging for the purchase of their other needs jointly and at profitable rates as an indent system without incurring any risk or liability, save litigation expenses by effecting arbitration, improve the out turn of crops by consolidation of holdings, supply of pure seed and improved implements, supplement the income of its members by inducing them to take to subsidiary industries, introduce better living measures by adopting bye-laws by common consent, which will curtail ceremonial expenditure, and remove insanitary habits, provide medical relief and so on.[1]"

The new idea gave rise to a controversy. There were people whole hailed it is a comprehensive approach to the rural problem as a whole. "The comparative failure of the usual credit co-operation," wrote a well-known Professor of Economics, "may be largely attributed to the fact that it addressed

(1) Reserve Bank Review (1940-41) op cit pp. 20-22.

itself to the solution of the problems of credit only and did not simultaneously take up the compaign against all the causes which give rise to it and make for unbalanced budget of the farmer."[1] It was further pointed out that the farmer does not like too many agencies to deal with In addition to the above, many other benefits were claimed for the multipurposes society by those who welcomed the idea Greater loyalty and sustained interest of members, freedom from the evils of cash economy, wider area of operation, hence more economical and efficient management, its utility in the moral uplift movement and the promotion of subsidiary industries connected with agriculture. It can serve as a good agency for the rehabilitation of rural life as a whole, it will have a comprehensive understanding of all the various problems that the agriculturist has to face. In any case a proper co ordination of the various co-operative activeties is necessary even if there are sepatate socities for each purpose Multipurposes societies can do it best

On the other hand its opponents[2] raised a number of objections against it. That the business ability of the villager may be over strained, the danger of its becoming cumbersome in mechanism and unintelligible to the simpler members, failure of one line of business may affect other lines The disadvantages due to the larger area of operation wete pointed out It was held that on account of the failure on the part of members to secure the necessary mutual knowledge and trust, an essential purpose of the co-operative moment would be defeated. Moreover, a small village unit was regarded necessary as a training g ound Then the limited liability of such societies was also objected to

In spite of these objections, however, there was a growing number of people who favoured this kind of society even before partition. The Thirteenth conference of Registrars of Co operative Societies held at Delhi in December 1939, passed the resolution " that provinces should experiment with multspurpose societies to ascertain more clearly the conditions under which they are likely to thrive, and the form which they should take with special reference to their area of operation, liability and purposes The Madras Committee on co operation also favoured the idea

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(1) S G Beri in the Indian Economic Journal Conference Number 1942, p 516

(2) e g Strick land at the Thirteenth Registrar's Conference, 1939.

The Co-operative Planning Committee reporting in 1946, recommended the reorganization of the primary society in such a way as to make it a multipurposes society. "We recommend," wrote the Committee, "that the primary credit society should be reformed and reorganized so as to serve as a centre for the general economic improvement of its members and in particular, (*a*) finance crop production ; (*b*) act as agent for the sale of crop to the nearest co-operative marketing organization, (*c*) supply the farmer's simple needs for crop production like seed, cattle feed, fertilizer and agricultural implements, and also consumer's goods like cloth, kerosene, salt and matches on indent basis or on the basis of established needs ; (*d*) serve as milk collecting station for the nearest diary and as a centre for animal first-aid and the maintenance of stud bulls ; (*e*) serve as a centre for maintaining agricultural machinery for the joint use of members ; and (*f*) encourage subsidiary occupations for its members.[1]"

The Agricultural Credit Organization Committee of Bombay also suggested in 1947 that all primary societies should be multipurpose. At the time of Partition Multipurpose Societies had already been introduced in an experimental way in U. P., Bengal and Bombay Provinces of pre-division India and among the States in Baroda and Mysore.

Since the partition such societies have become quite popular in the various provinces of Pakistan. "The latest policy of the Co-operative Directorate" says the Registrar Co-operative Societies East Bengal, "is to replace these (rural credit) societies which have out lived their usefulness, with multi purpose societies, one for each union (which is the unit of administration in the province)[1]" In addition to the primary multipurpose societies which numbered 1,671 on 30th June 1950 there are 5 central Multi purpose Societies in East Bengal. The central societies assist the primaries in their business. Some of these societies have existed since before the partition, for instance, the Central Multipurpose Society of Kishorganj sub-Division was organized during the war for the supply of controlled commodities. In 1946 this and Central Union Multi purpose Society together earned a profit of about 20 lakhs which was the highest recorded. After decontrol of some of the commodities the activities of these societies wanred but more recently they have taken to the marketing of agricultural

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(1) C. A. Ali Co-operative Activities in East Bengal, Co-operation and Marketing Review Oct., 1950 P. 308.

produce especially jute. On the whole these societies have done splendid work.

Multipurpose societies have also been formed in the Punjab since the pattition. "It is widely realised" says an Assistant Registrar of the Provincial Co-operative Department, "that effort should be made to embrace all aspects of life of the member and the movement should deal with his requirements in every respect" [1]. There are 150 multipurpose societies in the Punjab. The credit of taking initiative in this respect goes to the Jhelum district of Rawalpindi where two multipurpose societies were formed in July 1946, at Chakwal. The position in some of the districts of the Punjab in 1949 was as follows [2]:—

		No. of Societies	Membership.	Working Capital.
Jhelum	...	11	3,590	Rs. 8 lakhs.
Sargodha	...	10	...	...
Shahpur	...	10	827	Rs. 8 "
Attock	...	3	445	Rs. 2 "
Mianwali	...	2	161	Rs. 5 "
Sialkote	...	1	...	...
Montgomery	...	6	289	Rs. 1 "
Muzaffargarh	...	8	541	Rs. 2½ "
Dera Ghazi Khan	...	7	276	Rs. 5 "

Reports about the working of these societies show considerable enthusiasm on the part of their members. Most of them have been dealing with rationed commodities, e.g, food grains, sugar, kerosene etc., but they are venturing into other business too. Some of them are running rice husking mills, cotton ginning factories, floor mills, oil expellers etc.

It should be noted that the co-operative farming societies are also Multi purpose Societies since they help the members in varions ways. If the village is reorganised on a co-operative basis the society that will be taken as a prodel would be the Multi purpose Society.

22. Non-Agricmltural Credit Societies. Non-Agricultur Societies may be credit societies or non-Credit Societies.

(1) Ch. Sultan Ahmad: Recent Trends of Co-opetative Movement in the Punjab. Co-operative and Marketing Review October, 1950 P, 323.

(2) Statistics taken from K. M. Bashir Ahmad Co-operation in 'Pakistan. Pakistan Economic Journal July 1949 PP, 93-95.

Non Agricultural Co-operative Credit Societies are found in the urban areas and follow the Shulze Delizsch model *i.e.* large membership, limited liability, high dividends etc. In pre-partition India they took various forms, like the People's Banks found in Madras and Bombay Provinces, Thrift and Life Insurance Societies as in the Punjab, Bombay and Madras, Societies, for Employees of Large Firms and Government Departments as in Bengal, Bombay and Madras, Societies for Factory Workers as in Madras, Bombay and Calcutta etc. In Pakistan these societies have taken the form of Urban Banks and their latest position is tabulated below :

Non-Agricultural Credit Societies
or
Urban Bank.

No. of Societies	...	1,020
No. of members	...	1,25,126
Share capital paid up	...	Rs. 43.26 lakhs.
Reserve and other Funds	...	Rs. 48.53 „
Working Capital	...	Rs. 2,35.33 „

23. **Non-Agricultural Credit Societies.** This category of societies includes Industrial Societies, Co-operative Housing Societies and Miscellaneous societies including co-operative stores etc. Their statistical position in Pakistan is indicated below :

	Industrial Co-operative Societies.	Co-operative Housing Societies.	Miscellaneous.
No. of Societies ...	1,502	24	3,951
No. of Members ...	1,49,670	2,505	3,99,272
Share Capital paid up Rs. lakhs ...	16.71	1.66	56.34
Reserve and other Funds Rs. lakh ...	5.54	.35	47.16
Working Capital Rs. lakhs ...	34.86	3.82	144.71

24. Industrial Co-operatives.—The importance of small scale industries run on Co-operarive basis was emphasized again and again in prepartition india. The Indian Industrial Commission (1916—18) the Royal Commission on Agriculture (1928) the Bombay Economic and Industrial Survey Committee (1938). the Central Provinces and Berar Industrial Committee, all of these expert bodies stressed the role that co-operation can play in the rehabilitation and promotion of small scale and cottage industries in the sub-continent. Regarding the importance of small scale industries, the Bombay Industrialists plan observed as follows :—

"It is an essential part of our plan for the organisation of industries that adequate scope should be provided for small scale and cottage industries along with large scale industries. This is important not merely as a means of affording employment, but also for reducing the need for capital, particularly of external capital, in the early stages of the plan". The 14th Conference of the Registrars of Co operative Societies also emphasised the role of small scale industries in economic development. The best way to organize small scale industries is to bring them under the Co-operative principle. Considerable success has been achieved in organsing industrial Co-operatives in Foreign Countries. There are 20,000 handicraft Co-operatives in Russia with a membership of 1,765,000. In U.S.A. The idea of industrial Co-operatives is finding increasing acceptance. In China striking success in industrial Co-operatives has been achieved.[1]

In (prepartition) India the principle of Co-operation was applied to a number of small scale industries with varying success. The most important industry in this connection being the handloom. weavers. The Co-operative Planning Committee recommended the establishment of a separate Department of Industrial Co-operatives entrusted with the administrative Control and supervision of small scale and cottage industries.

"Industural co-operatives" is the largest single category of non-agricultural societies in Pakistan. There is a considerable scope for the development of such societies especially for organising cottage workers. They have already made progress in East Bengal and the Punjab. In East Bengal this category is mainly constituted by weaver's societies which are at present 1,405 in number with 22 Industrial Unions to assist them in the

(1) Co-operative Planning Committee Report P. 78.

matter of supplying raw materials and marketing of their products. They have within their fold 75% of the weavers of the Province. There is a Provincial Federation of Industrial Unions with head quarters at Dacca.

In the Punjab spinning and weaving societies were formed to meet the situation arising after the partition. The annual cloth requirement of the province were estimated at 1,45,631 bales while only 21,000 bales of cloth were being produced by the four textile mills in the province. It was to mitigate this cloth famine that these societies were organized. Another objective was to help in the rehabilitation of a large number of refugee weavers. At the moment there are 289 spinning societies and 229 weaving societies in the Punjab. Their working capital respectively is Rs. 43.298 and Rs. 217,390. Their membership consists of over 12,000 spinners (mostly women) and over 6,000 weavers. The societies have not produced significant results because most of the members are refugees with no money and no settled life. Moreover, the mill made cloth and yarn which has flooded the market has hit the weavers hard. The industry needs attention on the part of the Government. The Government should help by arranging for the supply of essential raw materials, and marketing of the produce and also by giving facilities for training of the artisans.

Tke co-operative principle could be extended to larger industrial enterprises as well, as the experience of some other countries indicate. In the Punjab two textile mills have been organized on co-operative basis. In East Bengal a Jute baling press is being set up on the same basis. This kind of enterprise also needs encouragement on the part of the state.

24. Co-operative Housing Societies.—Co-operative Housing Societies are generally of two kinds (*a*) tenants co-operative societies which build or purchase houses for sale or lease to their members and (*b*) Building (or building and loan) societies, which help their members to acquire houses through advancing loans made on mortgage security.

Tenants co-operative societies have done good work in several countries of Europe and also in America. In Europe they arose out of the conditions created by the War and were formed in as many as 20 countries including Germany, Austria, Great Britain, Poland, Netherlands, Sweden, Switzerland etc. The Building Societies have achieved special success in Great Britain and U.S.A. They have also been established in Bulgaria, Germany and Switzerland. In (pre-partion) India

housing societies were established in the urban areas of Madras (114) Bombay (114) U.P. (31) and Sind (22).

The total number of such societies in Pakistan is only 24. Most of these societies are situated at Karachi. Due to housing shortage after partition a large number of such societies have been formed at Karachi. They plan to build about 10,000 houses.

Formation of co-operative housing societies need encouragement. This system of building houses has special advantages. The supply of raw materials can be facilitated and middle man's charges avoided ; they can play a useful and constructive role in the elaboration and execution of schemes of town planning and the houses built through their aid can be of better designs. since expert supervision can be obtained more cheaply.

25. Consumer's Stores.—Consumer's stores are established for the supply of domestic needs of the members. The idea is to save the middle man's charges and enable the consumers of small means to get the advantages of large scale operations. The society undertakes both whole sale and retail business and some times also production and processing of consumer goods. Trading costs are reduced because buyers become their own sellers. The society supplies the goods at market rates and later distributes net profits among the members in proportion to the purchases made by each.

The societies are organized usually on the lines followed by Rochelale Pioneers in England about a century back. Its general principles are : Open membership, democratic control, cash trading at market prices, fixed returns on capital and dividends on purchases.

The movement has been very popular in Europe. Their main achievements there according to the *Co-operative* Planning Committee have been "(1) Reduction in costs of retailing with advantages accruing to consumers, thus making possible more saving and higher standards of living and contributing to economic stability (2) Provision of better quality goods (3) Promotion of thrift and consequent increase in economic security of members. (4) Education in intelligent buying, family budgeting and general economies (5) Better citizenship, the result of widely diffused ownership of an important democratic business enterprise (6) Check on monopoly by co-operative competition and on profiteering (1)."

(1) *Co-operative Planning Committee Report P. 167.*

In India co-operative stores were established quite early in the co-operative movement but they did not become popular until the World War II. Between 1939-40 and 1943-44 their number (in British India) increased from 40 8 to 3,539, membership from 16,431 to 6,00,000 and working capital from Rs. 54 lakhs to Rs. 20 crores.

In Pakistan consumers stores have not made much progress. There are, however, notable achievements in certain individual cases. In East Bengal there is the Rangpur District Consumer's Co-operative Stores Ltd, which needs mention. It was originally established to supply consumer goods to members during the War. Now its membership has reached the million mark and "almost every head of a family of the district of Rangpur is its share-holder (2). It supplied controlled commodities for the entire district during the period of control. Now it has taken to maketing as well though it continues to supply consumer goods too. It has lately established a large pharmaceutical work —the largest factory in Pakistan.

In the Punjab the consumers' stores have come into existence since the Partition. They took over the work of the disposal of refugee goods on behalf of the government. They are now 13 in number with a membership of 1,344 and working capital of Rs. 2 crores. The most important of them is the Lahore Central Co-operative Stores which has a share capital of Rs. 6 lakhs and working capital exceeding Rs. 1'5 crores, The Store imports its requirements direct from foreign counts. The goods it supplies include general merchandise, crockery cutlery, electric cessories and appliances, flourescent tubes and fittings, radios writers, clocks and watches, boots and shoes, sports goods etc. During 1949 this Store had a business turn over of over Rs. 6'40 crores and its profits amounted to about Rs. 12 lakhs.

26. Miscellaneous Societies.—Other societies—both agricultural and non-agricultural—which need mentioning are fishermen's societies, consolidation of holdings, livestock breeding etc. Fisherman's societies exist in East Bengal and Sind but have not made much progress. Consolidation of holdings societies of the Punjab and N.W.F.P. did good work in prepartition days but their activities at the moment are in suspense. There are health co-operatives in East Bengal and the Punjab. In the former province they are mainly anti-malaria societies while in the latter they have taken the form of First aid Centres and full fledged hospitals. In the Punjab are to be found stock breeding societies

(2) C. A. Ali op cit. P. 309.

both for cattle and sheep, though *results have* not been encouraging.

There are practically no limits to the extension of the co-operative principle especially among the people of small means. All efforts should be made in Pakistan to take full advantage of the possibilities of this particular mode of social and economic organization. *Its achievements in the past have* not been very spectacular but there are definite reasons for it which can be overcome.

27. Achievement and Failures.—The co-operative movement in the Indo-Pak subcontinent has been subjected, from time to time, to the search light of criticism by various writers, committees and Commissioners. On t[illegible] of the movement and its posibilitie[illegible] on the other the movement has be[illegible] Some have regretted its official [illegible] regarded this feature of it as an element of hope and strength. The Royal Commission on Agriculture more than 20 years ago appraised the movement as follows. "Knowledge of the co-operative system is now wide spread, thrift is being encouraged, training in the handling of money and in the elementary banking principles is being given, where the co-operative movement is strongly established, there has been a ceneral lowering of the rate of interest charged by the money teender, the hold of the money lender has been loosened, with the result that a marked change has been brought about in the out-look of the people[1]."

An authoritative writer on rural problems of the Punjab, M. L. Darling wrote "It is difficult to give conclusive evidence of this (moral progress) as the signs of moral progress are too elusive to be pinned down in a statement of facts, but for all that they are umistakable to close observers of the movement litigation and extravagence, drunkenness and gambling are all at a discount in a good co-operative society; and in their place will be found industry self-reliance and straight dealing, education and arbitration societies thrift self-help and mutual help. " Thus it is claimed for the movement that it has reduced the rate of interest in rural areas, encouraged the habit of saving and investment, decreased consumption, borrowing and improved the moral tone and out look of the people.

(1) Report Royal Commission on Agriculture in India.

On the other hand the critics of the movement point out that most of the achievements claimed for it are of a qualitative character and cannot be definitely established or measured. Further, they assert that results that have been actually achieved are only associated with the best societies which form quite a small proportion of the movement. They also emphasize the fact that the co-operation in India and Pakistan has been almost exclusively occupied with the problem of rural credit and even in that field its achievement are not very remarkable. Even an official body like the Central Banking Enquiry Committee had to admit that there was very little evidence about the reduction of total indebtedness through the agency of the co-operative credit societies, for they were not in a position to finance the agriculturists adequately for the discharge of old debts. "The various Provincial Banking Enquiry Committees also noted that only a small percentage of the current needs of agriculture was supplied by co-operative societies. It was further pointed out by some writers that official figures of the number, membership and capital of the societies were unreliable[1] Even on the basis of these figures the movement had only touched a small proportion of the total population. "All that has been done," wrote an eminent Indian writer (Sir M. Visvesvaraya), "amounts only to a scratching of the surface."

This criticism contains a substantial element of truth but considering the limitations under which the movement developed in the Indo-Pak subcontinent it has made remarkable progress and has conferred lasting benefits upon the peasantry. Owing to cheepness of credit that it made available it resulted in large savings for the agriculturists which for the pre-partition India was put at Rs. one crore. It restricted debts by establishing a system of controlled credit and weakened the vicious system of money-lending that used to prey upon the ignorance of the peasant.

The Pakistan provinces of the Punjab and Bengal (especially the former) were always regarded as most progressive from this point of view. Since the partition the movement has received still greater vitality in Pakistan. It has successfully met the post partition crisis in the field of rural finance, marketing and general rehabilitation of the refugees. It has before it an unlimited field for development. The old financing and trading agencies have disappeared and the people and the

(1) See S. K. Iyenger's article in the Indian Economic Journal January 1942, P. 406-408 for example of defective presentation of figures.

Government are most anxious that the co-operative movement should fill the gap thus created.

The movement, however, needs rectification through the removal of the various defects that have been discovered in its working during the last forty five years. Among the defects that are usually pointed out—which, however, are not found in the best societies are :—Want of due supervision ; undue delay in financing ; financing more on the basis of assets than on paying capacity ; indiscreet loans , contumacy of borrowers ; unpunctuality in repayment , restrictions of loans to a few favoured individuals ; dishonesty and incompetence of government, bank and society officials , bad selection of members , debts ; faulty conmembership spread over too large an area , concealment of old stitution, internal dissentions , inadequacy of funds ; general apathy of members etc etc

All these defects are ultimately traceable to the lack of co-operative spirit which has been the basic defect of the movement. The movement in this sub continent did not arise out of the consciousness of a need on the part of the people. It was imposed from above through Government action to solve the problem of the growing menace of rural indebtedness The movement later spread to other fields but its official character stuck to it. This could not be helped because of the general illiteracy and backwardness of the people It was creditable that the state did take the initiative, otherwise the people might never have thought of this way of solving their problems. In fact the official patronage must continue in the future as well until through experience and education the people themselves arrive at the consciousness of the potentialities of the

28 Conditions of Success—The movement has made more rapid progress, and without official patronage, in some of the countries of Europe Moreover, there, much more is expected of co-operation than mere material well being throughthe supply of credit and other needs of the farmer. " It is expected to transform the whole human being, his personality, character, attitude to the community and attitude to life[1]." Denmark is a classical example But conditions in Denmark differ greatly from conditions that have prevailed in the sub-continent

(1) Co-operative Action in Rural Life, Survey by International Labour Office p 30

of India. According to Sir John Russell four essential conditions of success are present in Denmark :—

(1) "The village population is homogeneous; there is nothing corresponding to caste distinctions.

(2) The cultivators are literate.

(3) From the out set people's High Schools were set up where cultivators were taught better living both in the home and in the village and where ideas of corporate responsibility in village and national life were inculated.

(4) The co-operative societies are mostly trading societies, taking over the produce from the cultivator, working it up into marketable form and selling it for him. Also they supply him with all materials for use in the home and on the farm. They are merely financed by the local banks and members are jointly and severally liable for the loans. As depositors the members provide a substantial part of the funds; it is their own money that is lent to members, and in consequence each borrower feels himself under the necessity of repayment[1]"

All these conditions were absent in pre-partition India and most of them are absent in the present day India and Pakistan. The Indian society was not homogeneous, castes and creeds divided it into exclusive, if not warring groups with contradictory aims. In Pakistan today the population is much more homogeneous and the force of caste is not so strong. The percentage of literacy, however, is as low as it ever was in India of British days. There are no educational institutions corresponding to people's High Schools of Denmark nor have they been in the past. Corporate responsibility has been almost entirely absent, The cultivators have been and still are too poor to be able to provide a substantial part of the funds of local banks.

In fact one of the chief causes of the slow growth of co-operation in India and Pakistan has been the meagre income of the masses. A vast majority of the peasants have lacked means even to become members of the societies. In the Words of the Bengal Banking Enquiry Committee " at the onc end of the scale there are people who are so well off that they do not desire to incur the risk of unlimited liability by enlisting themselves as members. At the other end there are per-

(1) Russell (Sir John) Report on the Work of the Imperial Council of Agricultural Reserch (1937) p. 63.

sons who are so poor that they are refused membership. It is therefore, not unfair to assume that the co-operative population represents the medium agricultural population[1]". It is, therefore, not a matter of accident that the comperatively more prosperous rural population of the Punjab made the highest progress in co-operative activity in the whole of India. In Pakistan also this province is head and shoulders above the others in this respect. As we have already mentioned as much as one quarter of its population has been affected by the co-operative movement.

On the whole, however, Pakistan as well as India lacks the conditions which make for the success of the co-operative movement. But there is no occasion for despair. For one thing co-operation short of socialism is the only hope of our rural masses We must make the best of it, in spite of the adverse character of the environment That co-operation can succeed especially in Pakistan is indicated by the excellent results achieved especially in the field of non-credit co-operation since the partition. The marketing societies of the Punjab, the N.-W. F. P. and East Bengal have done brilliant work during the post partition period Co-operative farming experiments in the Punjab and East Bengal are encouraging Industrial co-operatives also have shown good results especially in the rehabilitation of refugee artisans. With the spread of education and greater co-operative experience, with the transfer of larger powers to the common people the rate of progress is bound to increase, especially if the new tendency towards the formation of multipurpose co-operative units is allowed to develop fully so that the co-operative spirit permeates the whole village life in all its various aspects. If the multipurpose society also under takes co-operative farming as one of its main functions the future of co-operation and of Pakistan's agriculture is doubly assured. But before this ideal is realised radical changes will be necessary in the present system of land tenure.

29. Suggestions for Improvement.In the meantime it is necessary that the movement should be rationalised and as far as possible its defects removed. In this connection reference may be made to the suggestion made by the Agricultural Credit Department of the Reserve Bank of India[2] about a decade ago. These suggestions can be helpful even now for the reorientation of the movement in Pakistan. It was suggested

(1) B Bk Enq Com Report p 69
(2) Reserve Bank Review of cit pp. 16, 17.

that over due and long term loans of the credit societies should be separated from the short term loans and should be put on a proper footing. This would involve scaling down of over dues and arranging for their payments either by sale of the member's assets or through the agency of land mortgage banks, making payment possible by means of instalments over a period of years. In the meantime fresh finances should be supplied for cultivation and other necessary expenses, preferably in kind. The Bank further suggested that the societies should build large reserves by increasing the margin between borrowing and lending rates in order to enable them to tide over unfavourable seasons and to meet unexpected losses. Here, however, there is a danger that the rates may be too high to be within the paying capacity of the borrower. Hence the need for caution. A further suggestion was that loans should be advanced only for productive purposes and for other needs only the smallest minimum should be allowed. This, however, can cause great hardship to the peasant, especially in Pakistan, where no alter native sources of credit are available at the movement. Hence this rule should not be followed too rigidly.

A valuable suggestion was the reconstitution of the primary society into a multipurpose society. This suggestion has already been accepted in co-operative circles and the trend towards the formation of multipurpose societies in Pakistan is quite definite. Further, it has been suggested that primary societies should be federated into small Banking unions. This will economise energy and avoid waste, because the functions of finance, supervision and education, which are now in the hands of a number of agencies will be concentrated in the hands of one agency. This is a good suggestion if the primary society remains as it is. But if it is reconstituted as a multipurpose society embrancing the whole life of the village it can be strong enough to stand on its own legs. Federations of Societies, however, can be useful for general supervision and co-ordination of work and should preferably embrace a larger area than a union does, preferably a district.

The Reserve Bank laid special emphasis on the development of co-operative marketing of agricultural produce. This is specially important for Pakistan under the present conditions and it is good to note that co-operative marketing has made significant progress in Pakistan since the partition. Here again the attempt should be to entrust this function to a multipurpose society and not to form marketing societies as such.

Another recommendation related to the reorganization of the Central and Provincial Banks. "The larger and unwieldy central banks should be split up into banking unions, even if the Centrol Co-operative Bank is to be retained." The central banks should guide and assist the primary societies in their operations and the training of the members in the principles of co-operation. Similarly it was suggested that the Provincial Banks should play a larger part than hitherto in the direction of guiding the movement. The Bank further wanted the central institutions to maintain adequate liquid reserves and to establish closer contacts with first class crmmercial banks to be of greater service to the primary societies and the movement as a whole.

In two provinces of Pakistan Sind and N. W. F. P. the separate identity of central banks has disappeared and they have been merged into the Provincial Bank. The functions of the central institutions with respect to the primary societies may be reinvestigated in Pakistan in view of the post-partition conditions.

Finally, the Bank suggested that arrangements should be made for intensive training of the staff of the co-operative departments in the principles of co-operation rural economics and banking. The Pakistan Government we understand is establishing two such training institutions one for East and one for West Pakistan.

APPENDIX TO CHAPTER IX

CONSTITUTION OF A MULTIPURPOSE SOCIETY IN THE PUNJAB

Objects: The objects of a Co-operative Multi-purposes society are to promote the economic interest of its members and more particularly to arrange :—

(1) To afford relief to members in need by enabling them to obtain loans for really necessary purpose at reasonable interest and with easy terms of repayment.

(2) The purchase and sale of household and farming requirements of members.

(3) The collection and sale on commission of the agricultural produce of the members.

(4) The supply of improved seeds, manure, and agricultural implements and to encourage the members to grow pure and improved varieties of seeds.

(5) The supply of the domestic requirements at the lowest possible rates.

(6) The provision of Educational assistance and recreational facilities to its members and

(7) Other measures designed to encourage in the members the spirit and practice of trust mutual help and self help.

Membership. The membership of these societies is resritcted to ex-service men, serving soldiers widows or widowed mothers of ex-servicemen or serving soldiers or a relative to either of them " a relative includes, brothers, sons, fathers, grandfather, father's brothers sons, mother's brother's sons, mother's sister's sons, wife, mother, daughter and sister." Members are admitted after election by the Managing Committee subject to the confirmation of the General Meeting.

Liability. Members are jointly and severally liable for all debits incurred and loans and all deposits taken by the society in pursuance of its stated objects to the extent of four time the value of its shares.

Capital. The capital shall be composed of

(*a*) Undetermined number of shares of the value of Rs. 50 each.

(*b*) Deposits from members.

(c) Deposits and loans from non-members and

(d) Realised profits.

The acceptance of deposits and loans from non-members is subject to any restrictions which the registrar may impose, unless, otherwise, authorised by the Registrar deposits of the members in excess of the maximum credit limit of the society shall be invested outside its business.

Shares. Every member must hold one full share, generally of Rs. 50 and the full value of the share is payable on admission. Every member shall pay an admission fee of Re. one, when joining the society.

No member shall hold shares whose normal value exceeds Rs. 3,000 or exceeds one-fifth of the total share capital actually subscribed. If any member by inheritance becomes possessed of more than the maximum holding permitted by this rule, the managing committee shall have power, to sell the excess number and hold the proceeds at his disposal.

General Meeting. The supreme authority of the society is vested in the General Meeting which is held at the time of the annual audit or as soon after as may be found practicable, and at other times where summoned by the Registrar or the President or the committee of their own motion, or at the written request of not less than ten members. Several days notice of a general meeting shall be given to every member.

The presence of at least one-third of the members is necessary for the disposal of any business at such meetings, provided that where the total number of members exceeds hundred, thirty members shall suffice.

The President or the Vice-President or in their absence one of the members elected for the purpose shall preside.

Managing Committee. The Managing Committee consists of at least eleven members of the society over the age of 21, including a President and one or more Vice-Presidents. The members are elected for one year and are eligible for reelection.

A member of the committee shall cease to hold office if he —

(*i*) ceases to be a member of the society.
(*ii*) applies for insolvency or is declared insolvant.
(*iii*) becomes of unsound mind.

(*iv*) is convicted of any offence involving dishonesty or is imprisoned for three months.

(*v*) holds any office or place of profit under the society or receives any honorarium.

Employment of Funds. The funds of the society may be devoted to the promotion of the stated objects of the society. The society may rent or build such offices and buildings as may be necessary to carry out its stated objects and may acquire land for this purpose.

Loans. Loans may be granted to members for agricultural needs only. Loans shall be given for specific purposes and shall be applied solely to that purpose.

If a loan is misapplied it shall be immediately re-called in its entirety by the Committee. No loan is made to any person other than a member of full age. No loan can exceed 8% of the share money lying in the society on the borrower's credit. Ordinarily loans are advanced for six months. In exceptional cases the Committee may at their discretion sanction loans for longer periods which should not exceed one year for the purchase of cattle and agricultural implements.

Transaction in cash. All transactions are made in cash. In no case credit is allowed to any member. Sales are confined to members only except in case of surplus stock not required for the use of members or except when the society is appointed as an agent or is given a depot by the Government.

Division of Profits. The net profit after excluding expenses is distributed as below :—

(*i*) 25 % is carried to the Reserve Fund.
(*ii*) Another 55% is carried to the loss Adjustment Fund.

Dividend is paid on share capital actually paid up at the rate determined by the General Meeting held after the annual audit. But this rate cannot exceed 10% (limit raised later to 20%).

Not more than 7½% may be applied for the relief of poor, education, medical relief and advancement of other objects of

general public utility or a common good fund, to be devoted to any of these purposes.

Rest of the net profits may be distributed to the members as bonus in proportion to the purchases made by them, a bountry on their produce sold by them to the society. No rebate is distributed to non-members.

No dividend may be paid while any claim due from the society to a depositor or lender remains unsatisfied.

Rules of business. All transactions are strictly on cash terms subject to the practice of the local market which allows two days grace for payment from the date of weighment. No credit is allowed except to a Government servant purchasing on behalf of the Government.

Sale is ordinarily by private treaty, but if the owner or owners so desire it may be effected by public auction.

Every member is bound by the rules and instructions of the managing committee as to the grading of his agricultural produce in respect of its quality and bulk.

The society may charge such commission on sales as may be fixed from time to time in the general meeting for members and non-members respectively.

The society may join in co-operative purchase or sale with other co-operative societies.

The society shall accept from every member all agricultural produce supplied by him, provided that the sale of the produce is customarily undertaken by the society and is delivered in good condition and is suitable to be sold by the society aod is delivered at such time as may be warranted by the market cooditions. Io case of any default by the society in acceptance of such produce it shall pay to every member of whom default has been made a sum equal to the price of the produce refused.

CHAPTER X

THE STATE IN RELATION TO AGRICULTURE

1. Introduction. What part does the State play in relation to agriculture? In every country the State has to perform the basic functions of preserving law and order, recognition of rights in property and enforcement of contracts. Without such protective activities no economic life is possible. We have already discussed some of the functions the State performs in relation to agriculture in Pakistan apart from the above basic functions. The State has constructed huge irrigation works, extensive roads and railways; it provides credit for agricultural improvements, though on a limited scale; it has initiated, and it controls and supervises, the co-operative movement; and it has passed many legislative measures for the protection of the tiller of the soil from the money-lender and the landlord. Moreover, through its Medical, Public Health and Vaterinary Departments, it seeks to preserve and improve the health of the agriculturist and his livestock. The Education Departments also do their little bit to spread literacy in the rural areas. There are certain activities of the State, however, that still remain to be discussed, and discussed with a certain amount of detail. Such activities are:—

(a) *Activities in connection with the improvements in the methods of carrying on agricultural operations.*—They are undertaken primarily by the Provincial Agricultural Departments with valuable help from the Central Government agencies and institutions. These involve (*i*) agricultural research, with regard to seed, manure, implements, pests and diseases, etc.; (*ii*) agricultural education, aiming at producing agricultural research workers, officers for the Agricultural Departments and practical farmers; and (*iii*) popularization of results achieved through research by propaganda, distribution of seeds and implements, etc.

(b) *Rural Reconstruction.*—This is an activity of a wide scope involving both official and non-official effort. It aims at raising the material, mental and moral level of village life as a whole. It involves, through suitable agencies, bringing to the door of the villager in a practical form, the benefits that the various beneficent departments of the Government can confer on him.

(c) *Famine Relief Policy.*—This involves the relief of distress among the rural classes arising out of the failure of crops due to failure or scantiness or untimely rainfall or any other reason.

(d) *Land Revenue Policy.*—This concerns primarily not what the State gives to agriculture, but what the State demands from it But it may have a relief aspect, when during periods of agricultural distress, the State may reduce; suspend or remit the land tevenue charge. In fact, the land revenue policy has a lot to do with agricultural prosperity.

Let us take the Agricultural Departments first.

2. Evolution of Agricultural Departments in British India. The idea of establishing a "Department of Agriculture was mooted as earlv as 1866, but it was not until 1870 that the Department of Agriculture, Revenue and Commerce" was created by the Government of Lord Mayo. Due to lack of sympathy from Whitehall, however, this Department gradually degenerated into a Revenue Departmenr, and was finally absorbed in the Home Department.

In 1880, at the recommendation of the Famine Commission the Central Department of Agriculture was re-established and also provincial departments were created. The provincial departments concerned themselves at first with agricultural statistics. Experimental farms, however, were opened at Saidapet (1871), Poona (1880), Cawnpore (1881), and Nagpur (1843).

In 1889, Dr. J. A. Voelcker of the Royal Agricultural Society was appointed to enquire and report on the improvements of Indian agriculture, His monumental Report appeared in 1893. He emphasized the need for better irrigational facilities and the use of better manures. He attributed low productivity to smallness of holdings, wanr of capital, rural indebtedness and defective land tenures. He laid stress on the need for detailed scientific investigation regarding agricultural practice in India. He gave a warning against the belief that Western knowledge could simply be grafred on Indian practices. This report was followed by some appointments to the scientific staff of the Imperial Department of Agriculture.

In 1898 Sir Frederick Nicholson suggested that the Government should turn from agricultural enquiry ro agricultural improvement. In 1901 the Famine Commission opined that "the steady application to agricultural problems of research is the crying necessity of the times." The Commission recommended; (*i*) a strengthening of the staff of Agricultural Departments in

all provinces (*ii*) further legislation on the lines of the Punjab Land Alienation Act, 1901 (*iii*) introduction of co-operative credit societies on German lines. The Irrigation Commission of 1903 also emphasized importance of agricultural research and improvement.

In the meantime in as early as 1890 an Agricultural Chemist to the Government of India had been appointed. In 1901 the first Inspector-General of Agriculture was appointed. The same year was added an Imperial Mycologist, In 1903 an Imperial, Entomologist was appointed. The same year an American Mr. Henry Phipps, donated a sum of £30,000 for scientific research in India. Lord Curzon devoted the greater part of this sum to the establishment of the Imperial Agricultural Research Institute at Pusa.

The reorganization of the Department of Agriculture that took place in 1905 provided for a Central Research Institute at Pusa, completely staffed Provincial Departments of Agriculture, with agricultural colleges and provincial research institutes and an experimental farm in each important agricultural tract.

In 1906 the Indian Agricultural Service was constituted Other central institutions that were created in subsequent years were: The Imperial Cattle Breeding Farm at Karnal, the Creamery at Anand and the Imperial Sugarcane Breeding Station at Coimbatore. This latter is a branch of the Imperial Institute. which was transferred from Pusa to New Delhi after the Bihar Earthquake of 1934.

Institutions and departments were also established in connection wirh animal health. The Imperial Institute of Veterinary Research at Muktesar started in 1893 as a small laboratory for research on rinderpest later became a fully equipped research institute. The Civil and Veterinary Department was formed in 1891 and was under the control of the Inspector-General until 1912. This department was completely provincialised in 1919. The Government of India, however, continues to finance and control the Muktesar Research Institute and its branch station at Izzatnagar (Bareilly).

3. **Agricultural Policy after 1919.** Under the Reforms of 1919 agriculture became a provincial transferred subject and the Veterinary Department was also provincialised. The Central-Government still had some powers of supervision, direction

1. Agricultural colleges were established at Poona, Cawnpore, Nagpur, Coimbatore, Sabour (closed in 1921), Patna and Mandalay (opened in 1924) and Lyallpur.

and control over transferred subjects but it could not incur expenditure from Central Revenues on provincial subjects, except on agricultural research and training of research workers in the Central Institutions. The various Central institutions, however, continued to be under the Central Government.

The provincial ministries during Dyarchy (1921-1937) were not able to do much for agricultural development beyond some extension of irrigational facilities. One of the reasons was that finance was still a reserved subject and thus beyond their control. This deficiency was removed by the scheme of Provincial Autonomy which was inagurated from the 1st of April 1937. But in the meantime from 1930 onwards Indian Agriculture was overwhelmed by the great economic depression. While the need for help in the face of disappearing incomes of the peasantry was great, the government's axe of economy was busy cutting expenditure which affected mostly the nation-building departments including agriculture. Up to the outbreak of the World War II of 1939 the Indian agriculture was still in a depressed state. It had not regained its position of 1929. When the war broke out the attention of the Government was directed to this new emergency.

The trouble all along had been that from the Reforms of 1919 onwards, while the main responsibility of agricultural development was being shifted from the centre to the provinces, the main expanding sources of revenue were being preserved for the centre, while the provinces had to rely on those sources of revenue (mainly land revenue) which had very little scope for expansion. In fact land revenue burden had to be reduced if full justice was to be done in the distribution of burden of taxes. No wonder, therefore, that the Provincial Governments could do very little to stimulate agricultural progress. The most they did was to pass certain protective measures to save the tenant from exploitation by the money-lender, the landlord and the middleman. These measures have received our attention elsewhere.

An event of great importance for the agriculturist during the period between the two wars was the appointment of a Royal Commission on Agriculture. It is necessaty to know something about this commission.

4. The Royal Commission on Agriculture. The Royal Commission was appointed in 1926 " to examine and report on the present conditions of Agriculture and rural economy in British India and to make recommendations for the improve-

ment of agriculture and the promotion of the welfare and prosperity of the rural population and in particular to investigate :—

" (*a*) the measures now being taken for the promotion of agricultural and veterinary research, experiment, demonstration and education : for the compilation of agricultural statistics ; for the introduction of new and better crops and for improvement in agricultural practice, dairy farming and the breeding of stock ;

" (*b*) the existing methods of transport and marketing of agricultural produce and stock ;

" (*c*) the methods by which agricultural operations are financed and credit afforded to agriculturists ;

" (*d*) the main factors affecting the rural prosperity and welfare of the agricultural population ; and to make recommendations."

The problems of land revenue and land tenure were excluded from the scope of the Commission's enquiry. This was unfortunate, since these were among the basic problems of Indian agriculture. The Commission issued a comprehensive report in 1928 which in subsequent years, formed the basis of all fruitful discussion and Government action in matters relating to the subjects discussed by the Commission.

The recommendations of the Commission covered a very wide field including subjects like subdivion and fragmentation of holdings, improvement of livestock, irrigation, marketing, co-operation, rural education and rural reconstruction. Generally speaking, the aim of the recommenadtions was to bring about greater efficiency throughout the whole field of agricultural production, in order to render the business of farming more profitable to the cultivator. They emphasized the necessity of widening the outlook of the peasant and stressed the importance of Government initiative in promoting agricultural progress. One of their basic suggestions was that the rural problem should be tackled as a whole in all its various aspects simultaneously.

One of the most important recommendations of the Royal Commission was the creation of the Imperial Council of Agricultural Research " to promote, guide and co-ordinate agricultural research throughout India and to link it up with agricultural research in other parts of the British Empire and in foreign countries." This council was established in 1929.

5. Organization and Functions of Provincial Agricultural Departments. We may now describe the organization and functions of the Provincial Agricultural Departments as they worked in prepartition India. As a rule the Provincial Department of Agriculture was in the charge of a Minister of Agriculture, who was the political head. The administrative head of the department was the Director of Agriculture under whom there were Deputy Directors, Assistant Directors and Extra Assistant Directors of Agriculture Below them were Agricultural Assistants and other field workers.

The functions of the Provincial Department comprised the supervision and control of (*a*) Agricultural Education (*b*) Agriculture Research, (c) Demonstration and Propaganda, (*d*) Distribution of improved seeds, implements and artificial manures etc. Agricultural colleges imparted agricultural education both theoretical and practical. They also carried on research on agricultural problems, either independently, or under the guidance of the Imperial Council of Agricultural Research, if the subject was of all-India importance. The research related to the evolving of better varieties of seed from the point of view of yield and disease and drought-resisting qualities, pests and diease to which crops are subject, better implements and manures etc The results of this research were then tested on experimental farms, attached to the colleges or the research institutes The next step was to demonstrate them on model farms or demonstration plots located in the villages. Their success was thus proved to the cultivator under his own conditions. Then arrangements were made to produce and supply the seed, the implements or the manures whatever the case may be to the cultivator. The improved seed was produced on a large scale on Government seed farms or was purchased from private producers if necessary. Similarly implements were manufactured under the guidance of the department. The sale was arranged through stores or depots maintained by the department at convenient places The help of co-operative societies was also taken, if available, to approach the cultivator.

6. The Indian Council of Agricultural Research. We have already seen how, on the recommendation of the Royal Commission, the Imperial Council of Agricultural Research was established in 1929 to promote, guide and co-ordinate Agricultural Research. This Council worked through two organs: (*a*) A Governing Body to manage the funds etc and other affairs and (*b*) an Advisory Board to examine proposals for research

and submit them to the Governing Body. Originally the Secretariat of the Imperial Council was constituted a department of the Government of India. After January, 1939, however, the connection between the Government of India and the Secretariat became through the Department of Education, Health and Lands. The government appointed two expert officers of the Council designated as the Agricultural Commissioner and the Animal Husbandry Commissioner with the Government of India respectively.

In 1940 an important measure, the Agricultural Produce Cess Act, was passed by the Central Legislature. The object of the Act was to finance the research programme of the Council by levying an export cess of ½ per cent *ad valorem* on certain specified commodities.

The Imperial Council made grants for specific purposes to universities and Provincial Departments of Agriculture for research along approved lines. The Council usually did not undertake direct investigation but in two cases it undertook direct control (*i*) the cost of production specially of cotton and sugarcane and (*ii*) statistical control of agricultural experiments. Several schemes of the Council were carried out through the various institutions and institutes. In the words of the Russell Report[1] "a vast amount of primary work extending over wide range has been accomplished." The Report recommended that "a stage is now reached when a reorientation of the Council's activities should be reconsidered." The great need of the hour is "a fuller use of existing knowledge rather than the accumulation of mere knowledge, for work on the cultivator's field rather than in the laboratory."

Following the recommendations of the Report the Imperial (later Indian) Council of Agricultural Research undertook an examination of the methods of demonstration and propaganda in use. It put forward a scheme which aimed at putting across a whole group of tested improvements simultaneously, instead of one item hitherto, and to observe the combined effect of all these on the cultivator's income and on the land. The improvements were to be carried out by the cultivator himself instead of by Government staff as hitherto. The supervision, however, was to be by the Government officials.

7. Development Commission.—The Russell Report further recommended that a Development Commission, which could be combined with the Council should be set up. The

(1) Report on the work of the Imperial Council of Agricultural Research by Sir J. Russel.

Commission should, it suggested, plan large-scale improvements and suggest ways of raising the standard of living in the villages. It was recommended that the Commission should take up the following problems :—

(*a*) Soil conservation, deterioration and loss of soil, exhaustion and manuring, soil erosion, salt, alkali.

(*b*) Crop production, especially the planning of cropping schemes, the balance between cash, food and fodder crops, the fusion of animal husbandry and agriculture, the improvement of grazing land, the taking of action on the results of marketing and other economic enquiries.

(*c*) The exploitation of discoveries or processes of commercial importance. The Commission would not itself embark on industrial enterprises, but it would smooth the way for others to do so by helping to bridge the gap between the laboratory and the factory, and by giving information and advice to the commercial body undertaking the work. Seeing that some kind of monopoly would usually have to be granted for a term of years the Commission would advise the Government, on the technical side, as to the terms that could be accepted.

(*d*) The multiplication and distribution of seeds of approved varieties of crops and of named varieties of trees.

(*e*) The improvement of village roads.

8. The achievements of Research Activities. The Provincial Agricultural Departments and the Council did useful work in connection with agricultural improvement. This work relates to introduction of better varieties of crops, improved methods of cultivation and manuring, better methods of harvesting and handling, measures taken to deal with locust operations in the production and use of protective *sera* and cattle improvement, encouragement of consolidation of holdings, improvements as regards soil management and the use of fertilizers, etc.

The most important work, however, relates to the improved quality seed of the various crops. The area under improved varieties of crops in British India at the time of partition was about 23 million acres. This was about 10 per cent. of the total sown area. In the Indian states the percentage was only 1·3. But the percentage varied considerably as regards

individual crops as the following table shows :

PERCENTAGE AREA UNDER IMPROVED SEED

Crops	...	British India	Indian States	All India
Rice	...	5·3	1·5	5·1
Cotton	...	34·5	5·0	25·0
Wheat	...	24·9	1·3	20·7
Jute	...	62·5	...	62·5
Sugarcane	...	76·6	7·2	71·1
Groundnuts	...	3·4	10·2	5·0

According to Sir Bryce Burt, ex-Vice Chairman, Indian Council of Agricultural Research, the achievements in this connection during the decade following Agricultural Commission were[1] :—

(*i*) The average yield of cotton in the quinquennium 1932-37 was 108 lbs. per acre as compared with 96 and 95 in the two previous quinquennial periods. As for the change in quality in the three years 1927-28 to 1931-32 short staple cotton *i.e.*, below $\frac{7}{8}$"formed 75 per cent. of the whole and medium staple 25 per cent. while 1938-39 the figures were : short sraple 63 per cent. medium staple 32½ per cent. and long staple 4½ per cent.

(*ii*) In the case of Jute in 1937-38 the areas under departmental varieties was 1,763,000 acres out of a total of 2,889,000 acres.

(*iii*) The remarkable expansion of the groundnut crop has continued until India is the world's largest producer and its second exporter, despite the enormous internal consumption. The crop has spread from 3,000 acres in 1900 to 9 million acres in 1937-38.

(*iv*) In respect of sugarcane, about 80 per cent. of the total area was brought under improved varieties by 1939, and the estimated production per acre expressed as *gur* increased from 1·1 tons in 1927-28 to 1·4 tons in 1937-38.

(*v*) As for rice in 1937-38, the area under improved varieties had reached 3,759,000 acres compared with 634,000 acres in 1927-28.

(*vi*) Progress in wheat production can be seen from the fact that the total area under improved varieties just fell short of 7

1. Quoted by Nanavati and Anjaria : Indian Rural Problem, pp. 89-90.

million acres mark in 1937-38, this being nearly one-fifth of the total area.

(*vii*) The tobacco industry, which was in its infancy in 1929, now employs about 52,00 flue-curing barns. Some 85 per cent of the total requirements of the Indian cigarette factories were provided by Indian grown leaf in 1938 and an important export rrade had been developed.

These were impressive achievements, but in view of the immense possibilities they only touched the fringe of the problem. As we have seen only one-tenth of the cultured area was under improved varieties. India spent only 1½ annas per head of population on Agriculture. This comes to less than Rs. 100 per 1,000 of population. No wonder the pace of development was slow. Some writers regarded this as inevitable under the circumstances. "Having regard to the small holdings, to the poverty, to the ignorance of the Indian peasant and the variability of the seasons in India, it is not possible to achieve large results quickly.[1] The basic conditions of agriculture thus required a fundamental change. "Indian agriculture" according to Brij Narain, needed "fundamental reorganization." Our experience during the world crises suggests that the problem of Indian agriculture is too difficult to be solved by rgricultural research and improvement. No real progress is possible without radical changes in the system of landholding and the methods of cultivation. Further, Indian agriculture cannot be modernized unless means are found to divert surplus labour in the village to manufacturing industries."[2] We fully subscribe to this view.

Post Partition Position in Pakistan. The activities of the Provincial Departments of Agriculture are being persued in Pakistan on the same lines as in pre-partition days. The work of the Punjab Agricultural College in the field of research is particularly notable. In 1949 the plant pathological section of this college to which is also attached the Research Institute Lyallpur, did important work to fight the various diseases which affect cotton, sugarcane and jawar crops, in the Punjab. The research carried on the Experimental Farms of the Provincial Department of Agriculture in the Punjab has resulted in a new variety of cotton called "Lasari" being evolved. It is claimed that this will revolutioni the cotton industry of the province. Another post partition venture is the establishment

at Peshawar of an Institute of Joint Technology and a Sugarcane Research Institute. The Engineering Workshop at the Punjab Agricultural Department at Lyallpur has been tackling successfully the separation of pure cotton seeds from mixed ones. The Department has also achieved notable success in improving crop yields.

The crop improvement work is being done by the provincial departments. The Central Government co-ordinates this work through calling conferences and holding meetings of provincial and central experts. The centre also provides financial assistance for research and development for specific purposes.

As regards the Central Institutions, Pakistan has not yet filled the gap caused by all the Central Research institutions going to India after partition. Some steps, however, have been taken in this connection and co-ordinating work is being done, though on a limited scale.

A Pakistan Food and Agricultural Committee has been set up to carry out development research in all agricultural commodities excepting cotton and jute. Its first meeting was held in May 1949. It discussed several important schemes. It was decided to publish bulletins and monographs containing results of researches and technical contributions of interest to the scientific workers. The necessity of proper co-ordination in the publication of scientific journals between the provinces universities, scientific associations and the centre was emphasized.

The first meeting of this committee decided to set up three sub-committees.

(*i*) Finance and Priorities Sub-committee.
(*ii*) Agriculture Sub-committee.
(*iii*) Animal Husbandry Sub-committee.

The functions of the sub-committees on Agriculture and Animal Husbandry are to assist the main committee by scrutinizing and making recommendations on the various schemes of research submitted by the provincial Government and other units.

The Food and Agriculture Committee, (it was revealed by the Minister for Food and Agriculture at the 2nd meeting of the committee held at Karachi on December 4, 1950), has received 24 new research schemes, 13 on agricultural matters and

11 on animal husbandry matters. The total cost of these schemes will be Rs. 70 lakhs which will be partly met from the funds raised under the Agricultural Produce Cess Act. The funds from the cess (Rs 13 lakhs), availated fot this purpose are inadequate and the Minister suggested that the possibility of financing such schemes on 50 : 50 bas s between the units and the centre (as in the case of Indian Council of Agricultural Research) should be considered

A Pakistan Centtal Cotton Committee on the lines of the Indian Central Cotton Committee has been established. The committee will deal with the improvement in the cultivation and marketing of cotton. In its first meeting in March 1949 the Committee discussed a number of important matters. The Committee is co ordinating work regarding the production of good quality cotton in Pakistan This work comprises a large number of schemes—botanical physiological and technological—which had been undertaken in the Punjab and Sind in the past The Committee has decided to establish a Cotton Technological Labotatory at Karachi at a cost of Rs 1,00,000 for technological testing of samples used by cotton bteedets. The idea is to produce the finest cotton in Pakistan and to double the ptesent out put.

In some distticts of the Punjab in 1948 mixing of cotton and cotton seed took place To meet such a situation the Cotton Committee in consultation with the Provincial and Central Government has inaugurated a scheme under which separate areas for growing different varieties of cotton have been defined and mixing of cotton and cotton seed has been prohibited.

A Central Jute Committee has also been established. Until its establishment research work of jute was being continued at Dacca in ordet to maintain the continuity of research which was being done under the Indian Central Jute Committee before partition.

Another central scheme under consideration is the establishment of a Central Institute of Agricultural Engineering Research and Traction Technology. This institute will conduct research on the utility, adaptation and adjustment of imported machinery, tractots and tractor equipment under the various soils and climates of Pakistan The Government has also under contemplation the setting up of a Central Institute of Agricultural Research which will co-ordinate research work in all branches of agriculture and will serve as the main centre for post-graduate training.

Another series of measures relate to the protection of plants against pests and diseases. A plant Protection Service was organised immediately after partition to protect agricultural plants against pests and diseases. It has already done some good work. It was mainly responsible for controlling the black head cricket in Kalat to Sind and Baluchistan where it did considerable damage to wheat, sorghun and oil seeds. This service has also undertaken activities like spraying and cleaning of fruit trees against the various kinds of pests. An insectory has been improvised at Karachi where a parasite which feeds on the eggs of sugarcane borers and thus controls its ravages is being multiplied and distributed in the affected areas. Resistant varieties of various plants are being evolved as a measure against rust. An organization for the quarantine of plants has been establihed in order to prevent the entry into Pakistan of exotic insects and diseases. All imported plants are thus examined and health certificates issued before they are allowed to enter the country.

One of the greatest dangers to plants and trees is the locusts. Large breeding areas of this pest lie in the Western Pakistan as well as in the neighbouring territories of Iran and Arabia on the one hand and India on the other. In co-operation with these countries Pakistan has been taking measures to control the locust menace. An Anti-locust Conference was held in Septembea 1948 at Tehran which recommended that Pakistan should arrange to survey and control locusts in the Oman Peninsula, which is an important outbreak centre affecting Iran Pakistan and India. Measures have already been taken to implement this recommendation. A joint locust survey of Iranian and Pakistanian Mekran (Baluchistan) has been carried out and certain breeding areas of this pest have been located.

Another set of activities of the Government relevant to agricultural development relates to measures for the improvement of cattle and other livestock. Animal husbandry is a provincial subject. The Central Government. however, is mainly responsible for providing research facilities and post graduate training and for the co-ordination of the work done at the provincial level. The centre has established two Animal Husbandry and Research Institutes one at Peshawar and the other at Commilla for imparting post graduate training and manufacturing biological products.

Two Animal Husbandry Conferences have already been held and their recommendations regarding the measures to

improve livestock are being implemented by the provinces and the state.

The necessity of establishing a proper statistical service for Agricultural statistics is fully realised by the Government of Pakistan. This subject as the Prime Minister recently revealed will be one of the terms of referance of the Agricultural Enquiry Committee which the Government proposes to appoint. Another committee will deal with the important problem of land tenures in Pakistan.

The Food and Agricultural Organisation of the United Nations has been helpihg Pakistan regarding its agricultural problems. On invitation from our Government a number of top ranking F.A.O. experts have visited Pakistan and under took a rapid survey of our problems *e.g.* fisheries, under ground water resources, water logging, Agricultural extension service, improved facilities for storage of food grains, agricultural machinery etc.

The Pakistan Government has asked advice from the F.A.O. under the united Nations expanded programme of Tech-. nical Assistance in respect of 26 schemes of great importance The F.A.O. has agreed to lend Pakistan, experts on forestry, rural economy, agricultural statistics, animal husbandry and other matters connected with agriculture. A greater portion of the expenditure on these experts will be met by the F.A.O.

CHAPTER XI

FAMINE AND FAMINE RELIEF POLICY

Introduction .—Until the Bengal famine of 1943 it was a common saying that since the beginning of the present century famines in the Indian sub-continent were no longer food famines, but were only money famines. This meant that provided money was put into the hands of the people by giving them employment or charity there was no fear of starvation. This was so because food could be transported to areas of scarcity from the four corners, not only of India but also of the world. This result had been achieved by the revolution in transport that occurred during the 2nd half of the 19th century, by the increase in the production of foodgrains made possible by the construction of artificial irrigational works and the policy of famine reliet evolved by the Government during the same period. In normal times this was quite true. The Bengal famine was due to certain special circumstances created by the war. In normal times the famine relief policy of the Government should operate effectively enough to prevent loss of human life through starvation. Let us trace the evolution of this policy by a rapid glance over the history of famines in prepartition India.

2. **History of Famines .**—Famines have been known to the Indian sub continent from times immemorial. During the Hindu period famines must have occurred, though records are not available to give us any details about them. On such occasions, according to Chanakya, the state helped the people by remission of taxes, encouragement of emigration, granting relief in money and grain and by construction of artificial irrigational works.

During the Muslim period several famines visited the country, four of them being very severe. The first was in 1343, during the reign of Mohammad Tughlak. The king "ordered provisions for six months to be distributed to all the population of Delhi." During the reign of Akbar there was a fearful famine which raged all over the country for three or four years. Alms were widely distributed under the orders of the Emperor to give relief. Under Shah Jehan, one of the greatest famines ever recorded in history visited India, and vigorous measures of relief were adopted.

Another famine followed during the times of Aurangzeb. The Emperor granted relief through the remission of the land revenue, and in the words of James Mill, "The Treasury of the Emperur was opened without limit, corn was bought in the provinces where the produce was best and conveyed to those in which it was most defective and distributed to the people at reduced prices."

During the rule of the East India Company (1760-1857) there were twelve famines and four severe scarcities. The most important famines occurred in 1770, 1784, 1802, 1824 and 1837. During this period the condition of the country was unsettled. Matters like wars, disorder, new judicial and revenue systems, administrative corruption and unemployment caused by demobilization of troops, engaged the attention of the rulers and the people. On the whole the attitude of the Company was determined by commercial consideration. In later years slipshod methods of famine relief were adopted. Among these were regulation of prices, encouragement of emigration and occasionally construction of public works

In 1858 India passed under the rule of the Crown. Between that date and the end of the century there were several famines, and it was during this period that the policy of famine relief was evolved and perfected. The chief famines of this period were :—

Year.	Areas chiefly affected.
(1) 1860	—North-West India
(2) 1865	—Orissa.
(3) 1868	—Rajputana
(4) 1878	—Bihar.
(5) 1876-78	—South India.
(6) 1896-97	—Bombay, Madras, Central Provinces.
(7) 1899-1900	—Bombay, C P. Berar, Nizam's Dominions and Central india.

3. *Evolution of Famine Relief Policy* : *From the point of* view of the famine relief policy the famines of 1865, 1876-78, 1896-97, and 1899-1900 were the most important.

The Orissa famine of 1865 affected five crores of people. Mortality was about 10 lakhs of lives Action on the part of the Government was slow in the begining, but later large quantities of food were supplied This famine induced the first great and organized effort to combat distress through state agency."[1] Thirty-five million units were relieved (a unit beingone person supported for one day) at a cost of Rs. 95 lakhs.

1 Indian Year-Book, 1941-42 p. 373

The Great South Indian Famine of 1876-78, caused a mortality of 52 lakhs, and affected Madras, Mysore, Hyderabad and Bombay and later also extended to parts of Central and United Provinces and the Punjab. It affected 58 ⅜ million people. Seven hundred crores of units were relieved throughout British India at a cost of Rs. 8½ crores. "Warned by excessive expenditure in Bihar and actuated by the desire to secure economy the Government relief programme was not entirely successfull."[1] The experiences of this famine brought home to the Government the necessity of placing relief on an organized basis. It was after this famine that the first Great Famine Commission was appointed under the chairmanship of Sir Richard Strachey. The recommendations of this commission formed the foundations on which the famine relief policy was later on based. The principal of famine relief, or famine codes, as they were laid down by the commision were:—

(1) that employment should be given on the relief work to the able-bodied at a wage sufficient for support, on the condition of performing a suitable task;

(2) that gratuitous relief should be given in their villages or in poor houses to those who are unable to work;

(3) the food supply should be left to private agency, except where that was unequal to the demands upon it:

(4) the land-owning classes should be assisted by loans and by general suspensions of revenue in proportion to the crop failure.

One these principles provincial codes were drawn up and were tested by the famines of 1896-97 and 1899-1900 and were amended according to experience.

In the meantime in 1878, the Government had instituted a Famine Insurance Grant of Rs. 1½ crores a year to be provided in the annual budget. "The first charge on this grant was famine relief, the second protective works, the third the avoidance of debt."[2]

The Famine of 1896-97, spread almost all over India, except lower Burma and extreme south of the Peninsula. Sixty-nine and a half millions of people were affected. At the time of the greatest distress 4,000,000 persons were relieved. The total cost of famine relief was Rs. 7½ crores; revenue was remitted to

1. Ibid.
2. Ibid, p. 375

the extent of Rs. 1½ cores; and loans were given to the amount of Rs. 1¾ cores. The estimated mortality in British India was 7½ lakhs of persons The success attained in relief was gretest so far The Famine Commission under Sir James Lyall that reviewed the position after this famine, recommended relief for special classes like weavers and hill tribes; they laid down rules for managing charitable funds, advocated free grant of gratuitous relief. They favoured the extension of decentralized relief works. Before the people could recover from this famine the next famine came in 1899.

The famine of 1899-1901 was very severe though it was not so widespread. The policy of relief was more generous so that Rs 15 crores were spent A special feature of this famine was cattle mortality. The total population affected was 59½ millions. By the end of July 4½ millions persons were supported by the State. Although actual deaths from starvation were insignificant, epidemics of malaria and cholera brought up mortality figures to about a million souls. The Indian States also accepted the responsibility of saving life during this famine, and did a great deal to bring their administration of relief to the British Indian standard. In 1900 the Maharaja of Jaipur donated Rs. 15 lakhs which formed the nucleus of the Indian People's Famine Trust.

In 1901 reported another Famine Commission under Sir Anthony MacDonell. The Commission emphasized the importance of "moral strategy" or putting heart into the people. They reocmmended: assistance by takkavi loans as soon as the danger was scented; early suspension of land revenue, a policy of prudent boldness involving preparations for a large and elastic plan of ralief, constant vigilance and full enlistment of non-official help. They also emphasized the necessity of tackling the fodder problem and thus saving the cattle. Further, they recommendeds tarting of co-operative societies and extension of State irrigation in the form of protective work.

The amended famine codes embodying these principles stood the test of subsequent famines in U. P., (1907); Ahmadnagar (1912) and widespread scarcities of 1918 and 1920.

Side by side with the development of the famine relief policy the State took measures for prtection against famines. Out of the Famine Insurance Grant, already spoken of, protective railways and protective irrigation works were constructed. The latter were constructed as recommended by the Irrigation Commission (1903) in the most famine-susceptible districts of India in the Bombay Deccan and in the Central Provinces.

Apart from these the resistance power of the people increased due to various causes like greater industrial development, improved rural credit, better means of transport and the various activities of the Departments of Agriculture, which helped to increase the productivity of the land.

4. **The Famine Relief Fund.** Under the Act of 1919 the Provincial Governments were required to institute a Famine Relief Fund by annual assignments from their revenues. This Fund was invested with the Central Government which paid interest on it. It was available for expenditure on famine relief under spacified conditions. Under the Act of 1935 there was no provision for a separate Famine Relief Fund. Some Provincial Governments, however, instituted new Famine Relief Funds which were invested in securities of the Central Government. To this end Acts were passed by Provincial Legislatures in Madras, Bombay, Bengal, United Provinces, Bihar, Central Provinces and Berar, North-West Frontier Provinces, Orissa and Sind. The Punjab Government decided to continue the Famine Relief Fund but have considered it unnecessary to have an Act of the Legislature to constitute the new Fund. Assam had no Famine Relief Fund.

In the meantime "the Indian People's Famine Trust" which as we have seen was established in 1900, when the Maharaja of Jaipur gave a sum of Rs. 15 lakhs, increased in volume. Within a few years due to private philanthropy it stood at Rs. 28 lakhs. During 1934, it increased further when the invested balances of the United Provinces Famine Orphans' Fund were transferred to it. This fund was administered by a board of management consisting of 13 members appointed from different provinces and States. The income from the investment of this fund was utilized for relief work whenever necessary. In later years, due to the change in the character of the famines, the fund was used to relieve distress due not only to failure of rains but also to floods and earthquakes. The Trust, however, only supplemented the expenditure in relief undertaken by the Government.

5. **The System of Famine Relief.**—A few words may now be said about the system of famine relief. A complete machinery existed in the hands of the Government to tackle the famine when it arrived. Steps were taken not only when the famine had actually arrived but preparations were made in anticipation: (*a*) "In ordinary times Government is kept

1. Indian Year Book, 1943-44, pp. 326-27.

informed of the materiological conditions and the state of the crops; programme of suitable relief works are kept up to date, the country is mapped into relief circles, reserves of tools and plants are stocked" (*b*) "If the rains fail, policy is at once declared, non-officials are enlisted, revenue suspended and loans for agricultural purposes made. Test works are then opend, and if labour in considerable quantities is attracted, they are converted into works on code principles Poor houses are opened, and gratuitous relief given to the infirm." (*c*) "On the advent of the rains the people are moved from the large works to small works near their villages, liberal advances are made to agriculturists for the purchase of plough, cattle and seed" (*d*) "When the pricipal autumn crop is ripe, the few remaining works are gradually closed and gratuitous relief ceases. (*e*) "All this time the medical staff is kept in readiness to deal with cholera, which so often accompanies famine and malaria, which generally supervene when the rains break."[1]

Up to the time of the Bengal famine this system worked quite satisfactorily "Famine in the old terrible sense of the words," we were told, "ceased to occur." This was due to possibility of moving food from surplus areas to dificit areas on account of the development in the means of communications and transport and the relief machinery of the Government described above. But this system or relief failed in 1943, especially in the case of Bengal.

6 Causes of the Bengal Famine of 1943 44 Although the food situation could not be regarded normal during the first two years of the War, since food prices were rising, the difficulties in their acute form dated from the entry of Japan into the war in December, 1941 The worst sufferer in the scarcity that followed especially after the end of 1942 was the Province of Bengal. Apart from this province acute food scarcity was experienced in Madras, Bombay, and the States of Travancore and Cochin. In Bengal, according to the Famine Commission, 1½ million[2] persons died due to the famine and the epidemic that followed in its wake.

According to the Bengal Famine Enquiry Commissions[3] the causes of the tragedy were as follow .—

1. During 1943, there was a serious shortage in the total supply of rice available for consumption in Bengal as compared with total supply normally available. This was due to—

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2. Famine Enquiry Commission, Report on Bengal, p. 110
3. Ibid, op cit. p. 77.

(*a*) a shortage in the yield of winter rice crop (*aman*[1]) of 1942 combined with

(*b*) a shortage in the stock of old rice carried forward from 1942 to 1943.

II. Of the total supply available for consumption, the proportionate requirments of large sections of the population who normally buy their supplies from the market, either all the year round or a part of the year, were not distributed to them at a price which they afford to pay. This was due to:

(*a*) the incapacity of the trade operating freely in response to supply and demand to effect such a distribution in the conditions prevaling; and

(*b*) the absence of that measure of control, by the Bengal Government, over producers, traders and consumers in Bengal, which is necessary for insuring such a distribution.

III. The supply of rice and wheat which under normal conditions would have been available to Bengal from sources external to the province, was not available during the closing months of 1942 and large part of 1943. This was due to:

(*a*) the loss of imports of rice from Burma, and

(*b*) the delay in the establishment of a system of planned movement of suplies from surplus provinces and states to deficit provinces and states.

Thus according to the Commission the famine was due to (*i*) shortage of supply, (*ii*) breakdown of normal machinery of distribution (*iii*) incapacity of the authorities to meet the situation. A few words on each of these causes would be instructive.

7. Shortage of Supply of Rice in 1943.—This was due to the low yield of the the *aman* (winter crop) reaped at the close of 1942. There was little carry-over from the previous year. The *aman* crop for 1940 was exceptionally poor. Stocks were heavily drawn upon in 1941. The *aman* crops of 1941 was good but not good enough to replenish stocks materially. In fact Mian Afzal Hussain in his Minute contends that there could not have been any stock to carry over during the year in question. "Bengal had no carry-over of rice worth considering in the beginning of 1943."[2]

Early in 1942 Burma fell and imports from that country (about two million tons a year on the average) ceased. Exports

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1. Aman crops is the main crop of Bengal rice
2. Report, op. cit., p. 187.

from Bengal to areas, which more seriously depended upon Burma rice, increased during the first half of 1942. In 1943 loss of imports from Burma was only partially off-set by imports from other parts of India. "It appears probable," says the Commission, "that total supply during 1943 was not sufficient for the province and that there was an absolute deficiency of three weeks' requirements. This meant that even if all producers sold their entire surplus stocks without retaining the usual reserve for consumption beyond the next harvest, it was unlikely that consumers would have secured their normal requirements in full[1]."

8. **Failure of Distribution Machinery.**—In the summer of 1942 situation arose in rice markets of India including Bengal, when normal trade machinery was beginning to fail to distribute supplies at reasonable prices. This was caused by stoppage of imports from Burma, which transferred demand of areas depending on Burma rice (Ceylon, Travancore, Cochin, Western India) to other markets, in the main rice-producing areas of India. Other wartime circumstances accentuated the distress thus created. Bengal being near the military operations and base for fighting in Burma, suffered most from material and psychological repercussions. Shortage of supply and absence of control were bound to raise the price of rice to a level at which the poor were unable to obtain their needs.

9. **The Responsibility of the Bengal Government.**—At this time the Bengal Governmrnt should have taken measures to control supplies and ensure their proper distribution at controlled prices. The Provincial Government failed to do so The Commission attributes this failure to political causes. "Between the Government in office and the various political parties, and in the early part of the year (1943) between the Governor and his Ministry, and between the administrative organisation of Government and the public, there was lack of co-operation, which stood in the way of a united and vigorous effort to prevent and relieve famine."[2]

The main errors committed by the Bengal Government[3] according to the Commission were : (*i*) Failure to set up proper procurement organisation to obtain control over supplies. For this reason price control measures taken in June, 1942 did not succeed. (*ii*) In January and February, 1943, the Government tried to obtain control of supplies through unofficial agencies. This was a mistake. Official agency would have been more reliable,

1. Report, p. 103.
2. Ibid p. 105.
3. Ibid p. 104.

(*ii*) In March, 1943 decision was made in favour of " decontrol", which was again a mistake. Control was essential under the circumstances. (*iv*) In May 1943, the Government of Bengal pressed strongly for " unrestricted free trade "[1] in Eastern Regions in prefercnce to modified free trade." This measure couid not save Bengal but " led to severe distress and possibly starvation in the neighbouring areas of the region. "[2] The result of " decontrol " and " unrestricted free trade " was that greater supplies reaching Calcutta were not under the control of Government and hence rationing could not be introduced in Greater Calcutta. Even when the policy was reversed there was considerable delay in introducing rationing. (*v*) Arrangements for receipt, storage and distribution of food supplies from other parts of India during the autumn of 1943 were thoroughly inadequate. The proportion of the supplies received during the height of the famine was not distributed to the needy in the districts where such food was mostly required. " Better arrangements for despatch and distribution would have saved many lives ". (*vi*) No timely action was taken on the official reports of distress received from the countryside and in many cases relief was limited on financial grounds.

These are extremely serious charges by a body which must speak with authority. It is thus that the Bengal famine was called a " man-made famine."

10. The Responsibility of the Government of India. —The then Government of India also cannot escape responsibility. They should have established a system of planned movement of suppliesfrom surplus to deficit provinces early enough. Steps in this connection were taken with consideraɔle delay. It appears the Government of India was respecting the autonomy of the provinces during an emergency in which such niceties of behaviour were out of place.

The main errors of the Government of India according to the Commission were (*i*) They failed to recognize early enough the need for planned movement of wheat and rice from surplus to deficit areas. The Basic plan should have come ealier than it actually did in the closing months of 1942. (*ii*) The Government of India must share with the Bengal Government in the decision of decontrol made in March, 1943. (*iii*) They should have announced that they could provide month by month full quantity of wheat required by Greater Calcutta and a certain quantity of

1. See footnote on next page for explanation of these terms.
2. Report, p. 106.

rice. (iv) They erred in deciding to introduce " unrestricted free trade[1]."

11. The Responsibility of the People—According to the Commission the atmosphere of fear and greed in the absence of control was one of the causes of rise in prices. " Enormous profits were made out of the calamity, and in the circumstances profits for some meant death for others."[2] It has been reckoned that the amount of unusual profits made on the buying and selling of rice during 1943 was 150 crores."[3] A large part of the community lived in plenty while others starved, and there was much indifference in the face of suffering, corruption was widespread throughout the province and in many classes of society."[4] At another place they say, " Men, women and children died as much because they could not pay for the food they needed as because food was not available."[5]

12. Steps taken by Government of India. To meet the food situation in the country the Government of India took certain steps which may be noted.

(a) To deal with the control of food prices, supply and distribution of food-stuffs and to co-ordinate civil and military purchases, a Food Department was set up on 2nd December, 1942. From January, 1943, this Department took over from the Supply Department the task of procuring and purchasing the food requirements of the Army.

(b) A Central Food Advisory Council consisting of officials and non-officials was established in July, 1942, to pursue the task of food production on an all-India basis. The task was also attached to the Food Department. Thus was started the 'Grow-More-Food campaign.'

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1. These were the alternatives of policy considered in April, 1943 at a meeting between the representatives of Government of India and Government of Bengal. Both proposals involved withdrawal of powers from the Provincial Government, but " modified free trade " involved the retention of power of control [illegible]
sioner. [illegible]
private [illegible]
Governi [illegible]
Governr [illegible]
would b[illegible]
happen.

2. Report, p 107.
3. Ibid p. 80.
4. Ibid p. 107.
5. Ibid p 76.

(c) The Food Department adopted the Basic Plan for one year ending November, 1943, with respect to the major foodgrains. The idea was to facilitate the procurement, transport and distribution of foodgrains from the surplus provinces for the benefit of the deficit provinces. For this purpose regional Commissioners were appointed to maintain liaison between the provincial or state administrations and the centre and to ensure that the food plan was implemented.

The Basic Plan achieved the distribution of 1,240,000 tons of foodgrains in 7½ months. From 18th August, 1943 a revised Basic Plan came into operation. The aim of this plan was to distribute 1,480,000 tons of foodgrains from surplus to deficit areas from August, 1943 to March, 1944.

(*d*) In addition price control of certain food products and rationing was instituted in certain urban centres which met with varying success.

(*e*) In July, 1943, a Foodgrain Policy Committee was appointed with the following terms of reference :

" To examine the past policy and present position in India in relation to the supply, distribution and price of foodgrains, in the light of the relevant conditions, including those imposed or liable to be imposed by the war, and to make recommendations, both of policy and for administration, for securing for the duration of the war, maximum supply, equitable distribution and proper control of prices in relation to foodgrains."

13. Recommendations of the Food Policy Committee : Among the important recommendations of the Committee were—

(*a*) The 'Grow-More-Food campaign' should be encouraged by the Government by large-scale distribution of improved seed, production and supply of better manures (composts from night-soil, assisting the manufacture of Ammonium Sulphate), promotion of irrigation and drainage schemes, prevention of depletion of India's milch and draught cattle, importation of tractors and other agricultural implements, securing fuel and lubricating oil required by agriculturists, regulation of crop production, compelling the cultivation of culturable waste, increasine the strength of provincial Departments of Agriculture and promoting schemes of research especially, those bearing upon the immediate shortage of food production.

(*b*) India must cease for the duration of the war to be a net exporter of food. No export of rice should be permitted at all.

(c) The Government of India should (*i*) press for imports to create a Central Food Grains Reserve which should not be less than 500,000 tons. This will help the Government in enforcing price policies, (*ii*) press the United Nations to arrange for imports for current consumption to make up for the loss in net imports. The amount imported for this purpose was to be 1,000,000 tons of foodgrains a year.

(*d*) Procurement machinery should be set up in the various areas to procure foodgrains on behalf of the Government. The work should be entrusted to the agencies set up by the provinces and the states and competitive buying should be eliminated as far as possible. Requisitioning from the cultivator should be resorted to with extreme caution. Consumers' goods should be made available to the cultivators in exchange for foodgrains preferably through co-operative societies. Gold and silver may also be provided for the cultivator if necestary.

(e) As regards movement of food, an officer-in-charge of movement is required in the Food Department. Complete control of, and co-ordination over, coastal shipping should be secured, priority of movement of food should be secured by proper organization of country craft, river and canal transports should be organized for the movement of foodgrains and more use should be made of road transport.

(*f*) Rationing should be introduced forthwith in the larger cities of India, both in the deficit and surplus areas. in the first instance in those with populations of one lakh and over and should be progressively extended. Rationing should extend to all classes and sections of population and should cover all major foodgrains of the area under consideration, anti-hoarding measures should be drastically enforced.

(g) The disparities of food prices in different areas should be narrowed down by reducing prices where they are too high. This should be done by importation of maximum quantities of food products from surplus areas and overseas into deficit areas.

14. Government Action on F. G. P. Committee Report: The recommendations of the Committee were accepted by the Government and their policy was moulded accordingly. In a conference convened at Delhi in the middle of October 1943, the Food Member announced three lines of policy :—

(*i*) Banning of all exports of food.

(*ii*) Taking steps for the import of foodgrains.

(*iii*) Appointment of a Central Advisory Committee.

At the conclusion of the Conference the Central Government announced its decision in favour of (*a*) the basic plan of procurement, (*b*) Statutory price control of major foodgrains and (*c*) urban rationing.

The policies were implemented by practial steps. Export of foodgrains was prohibited. Arrangements were made for imports, though during the 12 months following the Report of the F.G.P. Committee, only 800,000 tons could be imported instead of 1,500,000 recommended by the Committee. This deficjency was attributed to the difficulties of getting shipping space in view of other pressing needs of the war. To facilitate procurements the Foodgrains Control Order, of May 1942, was rigidly enforced. This order required dealers in foodgrains to take licences and submit monthly returns of their stocks. No one could hold more than 40 maunds of foodgrains at a time. A Price Advisory Panel was established. Staturory prices on All-India basis were fixed for Wheat, Bajra and Jowar. Since it was thought unfair to curb foodgrain prices while leaving other commodities uncontrolled, on 16th October, 1943 by an Ordinance, profiteering in all commodities, except those already under control, was prohibited. Urban rationing was introduced, so that by the end of October 1944, 420 cities with a total population of 42,000,000 had been rationed. Finally the Grow-More-Food campaign was intensified to increase production.

15. The Grow-More-Food Campaign : In April 1942 the Government of India called a " Food Production Conference," which was attended by representatives of provinces and states. The object was to propose measures fot the increased production of foodgrains in India, particularly to meet the situation arising out of the loss of imports of rice from Burma.

The measures recommended by the Conference, which were to constitute the Grow-More-Food campaign were as follows :—

(*i*) An increase in the area under food and fodder crops by :—

(*a*) bringing new land including fallow land, under cultivation ;

(*b*) double cropping ; and

(*c*) diverting land from non-food crops to food crops.

(*ii*) An increase in the supply of water for irrigation by the improvement and extension of existing irrigation canals, the construction of additional wells, etc.

(*iii*) The extended use of manures and fertilizers.

(*iv*) An increase in the supply of improved seeds.

The campaign was conducted on these lines by the Central, Provincial and State Administrations. The Central Government helped mainly by making grants and giving loans. The grants were partly from the Central Revenues and partly from a fund called the Cotton Fund, created in 1942 out of the proceeds of an additional customs duty on the imports of raw cotton. "The object of this fund was to enable Government to take steps for the relief of the situation arising out of the stoppage of cotton exports to Japan by, *inter alia*, financing measures designed to assist the cultivator to change over from short-staple cotton to other crops." [1]

The total loans and grants made by the Central Government in two years ending 1944-45 were as follow:—

	Rs. Lakhs 1943-44	1944-45	Total
Loans :—	164 4	129 1	293 5
Grants from Central revenues	69 8	162·0	231·8
Grants from Cotton Fund	14 8	23·3	38·1

Expenditure of about equal demensions was also incurred by the Provincial and the State Governments from their own resources. Grants were generally made on a 50-50 basis.

16 Actual Work and Achievements.—We may briefly review the actual work done under this compaign, following the lines laid down by the Food Production Conference.

(*i*) Increase in area under food and fodder crops. This was to be achieved by bringing new land under cultivation, including fallow land, double cropping, and diverting land from non-food crops to food crops. The reasons why culturable waste was not cultivated were obvious. Only very expensive measures could help in this connection. Various measures, however, were taken to encourage the bringing of new land under the plough. Such were interest-free loans, rent-free leases for a term of years, rebate on assessment of land revenue, the supply of water for irrigation free or at concessional rates, the supply of seed at cheap rates, and the amendment of tenancy laws etc. Some fallow land was also brought under cultivation mainly due to high prices. Double-cropping land was extended considerably (3·5 million acres more in 1943-44 compared with the average of six years ending 1941-42). As regards diversion from non-food

1. The Famine Enquiry Commission (Final P

to food crops area under cotton was reduced from 24·2 million acres in 1941-42 to 19·2 million in 1942-43. In its place mainly jowar and bajra were grown. But the reduction of cotton reduced the supply of cattle food represented by about 500,000 tons of cotton seed. Similarly area under jute was reduced by about a million acres between 1942-43 and 1944-45 and rice was grown instead. This also was mainly due to high price of rice.

The table below gives changes brought about in area under the various crops mainly by the Grow-More Food Campaign.

AREA IN MILLION ACRES.

Crops	3 years' average ending 1936-39	3 years' average ending 1941-42	1942-43	1943-44
Rice (All India	...	...	51·9	53.4
excluding Bengal)	...	...	...	...
Bengal.	...	...	23·3	24·6
Wheat	34·8	34·3	34·4	33·7
Barley	6·3	6·3	6·8	6·7
Jowar	34·8	33·7	35·9	36·0
Bajra	16·9	17·9	22·2	21·1
Maize	6·3	6·3	6·9	6·9
Ragi	5·4	5·4	5·5	5·4
Gram	14·9	13·5	15·7	15·2

Apart from rice, it will be seen that only in the cases of inferior grains like jowar and bajra appreciable increases took place in the area under them. These were brought about by reduction in the area under cotton. Increase in the area under rice was partly attributable to its reduction under jute. Exclusive of Bengal (the figures for which are not comparable with previous years) "the area under rice in India in 1943-44 was one million acres greater than any year during the previous ten years."[1]

(*ii*) The second set of measures aimed at increasing the yield. This was to be done by increase in the supply of water for irrigation, extended use of manures and fertilizers and increase in the supply of improved seed.

The irrigation schemes put forward under the Grow-More Food Campaign consisted of: (*a*) reconditioning of old and the construction of new tanks and open wells, (*b*) the construction of tube-wells fitted with power-driven pumps, (*c*) the erection of Pumping plant for the raising of water from rivers and minor extensions and improvements to existing canals.

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1. Famine Commission Report, *op. cit.*, p. 22.

Crores worth of rupees were sanctioned for such schemes but "the additional area brought under irrigation has not yet been large."[1] The Famine Commission attributed this to several causes: "Departments are short-handed, materials are difficult to obtain, skilled labour is in short supply and above all delay is inevitable in obtaining machemiery."[2] Greatest progress was shown by the Punjab where 300,000 to 400,000 additional acres were brought under irrigation in three years after 1942-43.

As regards manures little success was achieved under the compaign in this connection. Due to pressure on land green manuring made little progress, bone meal manure was usually of small amounts There was possibilities of preparing compost from town refuse and night-soil. Arrangements were made to train staff for this purpose. Production was started and by the end of December 1944, 130,000 tons of such manure had been prepared. Sales were subsidized by the Government. Oil-cakes could be a source of manure but it was also a valuable cattle feed. As regards chemical fertilizers India imported 100,000 tons of them in 1939. The imports stopped during the war By the beginning of 1944 only 20 000 tons produced in India were available. The Government succeeded in getting imports of 76,000 tons and 34,000 tons during 1944 and early part of 1945. "The restrictions on the supplies of artificial fertilizers has undoubtedly been a great handicap to the Grow More-Food campaign."[3]

Improved seed also were distributed. The principal agencies for multiplication of improved seed were the Provincial Agricultural Departments and registered growers under their supervision. Extension of improved seed takes time. Even then it was possible to produce and distribute an additional quantity sufficient to cover an area of about 4 million acres[4]

Efforts were made to increase the supply of better vegetable seeds which before the war were imported from European countries. A seed farm was established in Baluchistan and arrangements was made in Kashmir for the acclioatization of vegetables of European type and for the production of seed on a large scale Steps were also taken for the preservation of cattle and importation of improved implements Restrictions were placed on the slaughter of cattle by the military. There was shortage of supply nf iron and steel for replacing and making agricultural implements. According to the then Govern-

1. Ibid, p 15
2. Ibid, p. 16
3 Ibid, p 11.
4 Ibid

ment of India a minimum of 25,000 tons of iron and steel per quarter were required for this purpose. It was not possible to secure this amount. As regards more improved implements it was estimated that for 1944, 151 tractors were required. Out of these only 19 tractors were received.

Now as regards the increase in the yield of the various crops brought about by all these efforts the table given below is significant :—

YIELD IN MILLION TONS

Crops.	3 years' average ending 1938-39.	3 years' average ending 1941-42.	1942-43.	1943-444.
Rice (All India excluding Bengal ...	...	...	17·9	18·8
Bengal ...	...	...	7·0	10·3
Wheat ...	10·2	10·3	11·0	9·7
Barley ...	2·1	2·1	2·2	2·2
Jowar ...	6·8	[illegible]·8	6·7	6·7
Bajra ...	2 6	2·9	4·0	3·7
Maize ...	2·0	2·1	2·4	2·4
Ragi ...	1·7	1·8	1·8	1·8
Gram ...	3·5	3·3	4·1	3·3

Apart from bajra and rice no significant increase in yield is indicated by the above table. 1943-44 rice crop was exceptionally good. There was a record yield. The highest yield recorded for all-India excluding Bengal, during the previous ten years, was 18·4 million tons in 1936-37. Compared with this the yield in 1943-44 was higher by 400,000. But the yield of rice fluctuates over a wide range.

17. Conclusion regarding the Grow-More-Food Campaign : The Grow-more-Food Compaign mostly concentrated in increasing the production of cereals. Every possible measure was adopted : propaganda, extension of cultivation, double-cropping, diversion of land from non-food crops to cereal crops, increased irrigation, conservation and development of manurial resources, subsidized manure supplies and distribution of improved seeds, legislation concessions, compensations, rewards and financial assistance to the cultivator. The war-time high prices provided an additional stimulous. But the net result of these efforts were not spectacular, as the Famine Commission put it. The total production of the main cereals increased only by three million tons if we compare the average for ihe year 1942-43 and 1943-44 with the average of six years ending 1941-42. Even this did not mean any substantial improvement in

the over-all position during the yeara 1942-43 at 1943-44 as compated with prevlous years. The food situation In fact further deteriorated in later years. The lesson of this meagte result was that the ultimate solution of the Indian food problem did not entirely lie in the direction of measures adopted undet the Grow-More-Food Campaign.

18. **Famine Commission on Agricultural Policy**: The Famine Commission mas appointed in 1944 with two purposes in view (*a*) to investigate the causes of the Bengal Famine of 1943 and (*b*) to suggest future lines of policy with respect to food and agriculture. The first report of the Commission was published early in 1945, and dealt with the Bengal Famine. The second or Final Report came out latter in the year. In this report the Commission surveyed the agricultural problem of the Indian sub-continant in all its aspects. This was the most comprehensive survey carried out in this field after the Royal Commission on Agriculture reported in 1928.

Regarding the future food and agricultural policy the main lines suggested by the Commission were :—

(*i*) " The state should recognize its ultimate responsibility to provide enough food for all."[1]

(*ii*) Cereals are the basic food of the people. The aims should be self-sufficiency in this respect.

(*iii*) The cultivator should be ensured a reasonable return from cereals through a policy of price control. The state must determine from time to time the minimum price of rice and wheat which are fair to the producer, and maximum price fair to the consumer and ensure that prevailing prices will fall within this range.[2] The will imply control of imports and keeping of adequate reserves to meet an emergency.

(*iv*) There should be increased production of certain protective and supplementary foods. Mere increased production of cereals will not improve the diet of the people. The Commission endorsed the recommendation of the United Nations' Conference on Food and Agriculrure. that the dietary standards or allowances based upon a scientific assessment of the amount and quality of foods, in terms of nutrients which promote health, should be adopted as " the ulrimate goal of

1. Report, p. 113.
2. Ibid, p. 111.

food and nutrition policy." Among such are vegetables, fruits, milk, fats, fish and eggs.

(*v*) Agriculture should be re-organized. The above production programme will depend upon the labours of millions of cultivators large and small, unless they can benefit from the resources made available by science, progress will be impossible. Accordingly the Commission devoted considerable attention to the question of land tenure, rent, co-operation and agricultural economy in general. We have discussed such questions already in this book.

(*vi*) Finally the development of industry is emphasized. " In order to increase agricultural production and improve the national diet," write the Commissioners, " simultaneous industrial development to augment the total wealth of the country is essential."

19. Minutes of Dissent: Two minutes of dissent were appended to the Report. One was by Mian Afzal Hussain who argued that the Commission's emphasis on self-sufficiency in cereals, and their taking the rice-eater's diet as unchangeable; was to support tradition rather than science He believed that "over-emphasis on cereals is misplaced, it gives an exaggerated importance to such a source of food, and such a policy will be a serious obstacle in the path of a satisfactory solution of the food problem of India, in a manner as will improve health, raise physical efficiency, increase capacity for work and lead to better mental growth." " It is abundant health," he continues, " not mere satisfaction of hunger, that should be the aim of a food policy. India is suffering, and in fact has been suffering, for some decades from a very acute famine of " protective " foods ; which has brought about physical decline and inefficiency, both in men and cattle, and if not attended to immediately may have serious consequences in an emergency."[1] We are in complete agreement with the position taken by M. Afzal Hussain. Eminent authorities like the Royal Commission on Agriculture,[2] Sir John Russell[3] and Dr. Wright have also expressed similar views.

The second Minute of Dissent was by Sir N. B. Nanavati. He did not agree with the Commission in their non-committal attitude towards Permanent Settlement and was definitely in favour of its abolition not only on economic but also on moral

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1. Report, p. 341 (Minute by M. Afzal Hussain).
2. Report, Agricultural Commission, p. 493
3. Russell, Report, p. 21.

grounds. He also suggested a number of Agrarian reforms to remove the various disabilities and handicaps under which the agriculturist worked in India Among these were: small and fragmentary holdings, lack of incentive due to defective tenure, indebtedness, lack of capital, defective marketing, loss of labour time, lack of crop control and planning. Sir Nanavati was in favour of state ownership of land, with occupancy rights to cultivators, consolidation of holdings, more equitable taxation of land, restrictions on transfer of land, etc. "The fundamental problem of agriculture," he concluded "is to transform this, occupation from a mode of living into a business proposition for the benefit of the cultivating classes." For this comprehensive and to some extent revolutionary measures were necessary.. "Without such measures it is impossible effectively to solve for this country the most baffling problem of our economy, namely, poverty in the midst of plenty."[1]

20. Food Position of Pakistan.—Prepartition India was normally a deficit country in food grains. Pakistan's over all position is that of a surplus country in this respect. It has been estimated that after making due allowance fot internal consumption at the current prices and allowing for wastage and seed requirements, Pakistan should have a surplus of food grains to the tune of about 400,000 tons to 500,000 tons a year.

This surplus, however, can be expected only in a normal year in which crops are good and no damage is caused to crops and stocks through flood or other visitations of nature. So far, since the partition the only year that could have been called normal was the year 1949-50. The post partition months of the year 1947-48 were disturbed due to movements of refugees. There was general unsettlement and crops suffered from neglect and wilful destruction on the part of those who left the country. Those who came took time to settle down and did not reap the crops properly since they had been sown by others who were not there. There were difficulties and confusions due to allotments of land and considerable production was wasted through sheer uncertainty of ownership. Heavy rains and floods of 1947 also caused damage in certain localities.

The year 1948-49 was again a bad year from the point of view of food. Not only sowiog of crops was affected due to the unsettled conditions of the immediate post-partition period

1. Famine Report, p. 375 (Minute by Sir M. B. Nanavati).

production was further affected adversely due to heavy rains and floods again in 1948. The damage caused by floods in East Bengal alone was estimated at 2,90,400 tons. The loss to the standing kharif crops in the Punjab was put at 2,64,000 tons and in Sind at 150,000 tons. The Punjab lost another 9,000 tons of stored up food grains. And this at a time when Pakistan had to face a net addition to population of about 20 lakhs of refugees from India. These represented the excess of those who entered Western Pakistan over those who left this part of the country. Apart from the damage done to food grains by floods etc. the actual production was also less than normal because extensive areas remained uncultivated. Whatever cultivation was done was undertaken under difficult conditions of unsettlement by people many of whom were resourceless refugees. They moreover, were not sure whether their allotments of lands would be permanent. Further, trade and commerce was dislocated due to the migration out of the country of the middlemen traders and financiers who were almost entirely non-Muslims. The fear of scarcity and desire for black marketing led to hoarding of food grains by larger producers. Smuggling to India, where prices were exceptionally high, further reduced the supplies available in the country. The result was that Pakistan's surplus producing provinces of Sind and the Punjab and the State of Bahawalpur themselves became deficit areas, not to speak of their ability to feed the deficit area of N. W. F. P. Baluchistan & East Bengal. Forced by these circumstances Pakistan had to apply to the Internatimal Emergency Food Council for allocation of 160,000 tons of wheat and rice to be obtained from other countries.

It was this imported food grains, arriving in the country in December 1948 and January 1949, which eased the food situation. Arrival of foreign food grains and the good prospects of Rabi crop of 1949 also led to dishoarding of food grains on the part of those who were keeping them back in expectation of high prices and making black market profits. It was thus that in 1949 food grain prices came down to the controlled level and in certain areas even fell below that level.

Procurement of Rabi food grains of the 1949-50 year was quite satisfactory. This led to the restoration of the original ration of 8 Chhatak per adult. Compulsory rationing of rice was withdrawn. It was now open to every body to receive ration in wheat or rice or part of each as he liked.

Food position in East Pakistan, however, continued to cause anxiety through out the year 1949. For the year ending

31st October 1949 the officially accepted deficit of rice was 140,000 tons But as a result of damage caused by rains and floods the deficit considerably increased later.

The food prospects for the year 1950 51 were bright until the Punjab floods of September cause a general havoc Large quantities of food grains, it was thought, had been carried away by the floods and considerable damage to kharif crops had been done Later reports, however, showed that the damage though significant was not as serious as was feared The Pakistan Food Minisrer after his tour of the affected areas described the food position as excellent. In the mean time the Government suspended the export of wheat to West Germany and Japan (to which she was committed by agreement) pending the proper assessment of the damage Pakistan had agreed to expott 250,000 tons to West Germany and 100,000 tons to Japan. Some of this wheat had already been exported.

It is, however, expected that during the next year due to increased fertility of the soils caused by floods the harvests are going to be bumper ones.

Thus on the whole Pakistan has not yet had a really normal year in which she could take advantage of her surplus food position. Compared to the Indian Union, however, Pakistanis have had enough to eat and there has been no real scarcity to speak of. The gas between production and consumption have been readily filled by imports in moderate quantities. The food position has been satisfactory enough to enable the Governments of the provinces of West Pakistan to abolish rationing of food grains.

The rationing of sugar, however, still continue because Pakistan suffers from a deficit of about 2 lakhs tons with respect to this commodity. Since trade with India has been practically at a stand-still, due to the 'devaluation crisis', Pakistan has been depending upon imports of sugar from outside countries. In the meantime a big sugar factory has been set up at Mardan with a capacity to produce 50,000 tons of sugar a year. The factory has already started production and it is hoped that the sugar position will become better as time goes on

Pakistan's position, in the beginning, was difficult with regard to edible oil and vegetable ghee and she had to approach the I.E.F.C. for allocation of a quota of 12,000 tons of copra from Ceylon which was later imported. There is now no scarcity of edible oils in Pakistan. There are at present only two Vanaspati factories (at Lahore and Lyallpur).

Pakistan is quite rich in fish, especially East Bengal, where it forms an important part of the diet of the people. Fish may be classified into marine, estuarine and inland fresh water. East Bengal, Sind and Baluchistan have access to marine fisheries. Estuarine fish is found in abundance in the Gangetic Delta of the Sunderbans and the Indian Delta. The country is also rich in inland fresh water fish. East Bengal produces more fish than it can consume and the balance is exported to West Bengal

The Government of the Punjab, Bengal and Sind have their provincial departments of fisheries. Each of these provinces have finalised schemes for the development of their fisheries resources. At Karachi it is proposed to construct a new Fish Harbour which will provide all modern facilities for berthing of fish boats and trawlers. Facilities will also be provided for modern hygienic fish curing, extraction of shark liver oil, cold storage arrangements etc. There is a Central Fisheries Organization working in Karachi. It is proposed to extend its activities to the coast of East Bengal. The Government is proposing to invite teams of foreign experts to advise on the planning and development of fisheries of the country on modern lines. Pakistan has become a member of the Indo-Pacific Fisheries Council of the Food and Agricultural Organization of the U. N.O. The object of this body is to tackle on a collective basis the fisheries problems of the Indo-Pacific region.

The Bengal Famine Commsssion, we have seen, stressed the importance of a balanced, diet in which vegetables eggs and fruit should form adequate proportions. Pakistan produces a large variety of fruit though the total quantity is not adequate for the needs of its population. The area under fruit is about 4,00,000 acres and the production is estimated at 7 crore maunds. All the units of Pakistan produce one or another type of fruit. The Punjab produces citrus fruits of all kinds, N.-W.F.P. deciduous fruits especially peaches one plums of especi ally good quality, Baluchistan grows grapes, apples appricots and cheries, East Pakistan is known for its bananas and pine apples. The Government is taking keen interest in the development of fruit industry. There is a scheme for the extension of fruit plantations in Baluchistan. To assist in the fruit and vegetable preservation a Central Fruit Technological Institute has been opened at Peshawar. There is also a fruit preservation scheme in Baluchistan. The Government has passed a Fruit Products Control Order with a view to ensuring the manufacture of fruit products on a clean and uniform basis. Fruit, however, will have to be producted on a much wider scale to make it available at reasonable rates to the mass of the people of the country. Fruit in Pakistan is still a luxury of the rich.

CHAPTER XII

LAND REVENUE SYSTEMS AND POLICY.

1. **Introduction.** Land Revenue as an important source of income of the state will receive our attention when we deal with Provincial Finance. Here we are concerned with the land revenue policy of the Government from the point of view of the burden of this charge on agriculture. This burden has been condemned and justified with equal force The system of land revenue assessment, the methods of calculating the charge and the manner of its collection have all been attacked from time to time, since long before partition, in the legislature, the press and from the platform. The indebtedness of the peasantry, their chronic poverty, even natural calamities like the famines were at one time attributed to this demand on the part of the Government. The reform of the system have always been stressed but there has been little consensus of opinion regarding the directions in which such reforms should lie. In this chapter first we shall study the prevailing systems of land revenue in Pakistan in their historical perspective and then evaluate the various reforms that have been suggested from time to time in these systems

2. **Land Revenue System.** The land revenue prevailing in Pakistan may be classified from two points of view :—

(*i*) Whether the land revenue is fixed once for all, or whether it is revised periodically. The former is called the 'Permanent Settlement' and prevails in East Bengal, though an Act for its abolition has already been passed. The latter is called the "*Temporary Settlement*" and *is in force in the rest of the country and partly* also in East Bengal,

(*ii*) The second basis of classification is land tenure. We have already studied the various land tenure systems prevailing in Pakistan. Here the point is to see on whose shoulders is placed the responsibility of paying the revenue. Thus .

(*a*) Under the Zamindari System it is the Zamindar who is made the owner of the land and hence is responsible for paying land revenue to the Government.

(b) Under the Mahalwari System it is the *Mahal* or village community of land proprietors who are individually and collectively responsible for the charge.

(c) Under the Ryotwari system every holder is individually responsible for the payment of land revenue to the government. The latter is regarded as the "owner" of land. The distinctive feature of this system" in the words of the Taxation Enquiry Committee "is that the settlement is made with the cultivating proprietor year by year and that he is at liberty to relinquish part of his holding, or subject to conditions. to add to it taking up waste lands as opportunity arises.[1]

But even in Ryotwari tenures middlemen have emerged by the practice of sub-letting and the land revenue in such cases is realised not from the actual cultivators but from the mid leman rent receivers who were original occupants.

The Zamindari system is found in all the provinces of Pakistan with the difference that Zamindari with permanent settlement prevails only in the province of East Bengal. The Mahalwari system is found mainly in the Punjab and North West Frontier Province. In Sind the Ryotwari system is predominent Historically the Permanent Settlement under Zamindari preceded other revenue system in the Indo-Pak sub-continent.

3. **Histroy of Permanent Settlement in the Indo-Pak.**—The Dewani (right to collect land revenue) of Bengal, Bihar and Orissa was conferred on the East India Company by the Emperor, Shah Alam in 1765. The direct collection of land revenue, however, did not begin until 1772. At that time about one-third of the Company's territories in India were waste lands over grown with jungles. The Decennial Settlement made in 1790- failed to induce landlords to clear the jungles and to extend cultivation. In 1793, therefore, in order to provide incentive Lord Cornwallis proclaimed (on 22nd March) that the Decennial Settlement would be regarded as permanent. The proclamation was included in the Statute Book as Regulation I of 1793.

The settlement conferred on the Zamindars (and independent Talukdars) hereditary proprietary rights subject to the condition that they paid the fixed amount of revenue, which was fixed in cash in perpetuity. The rate fixed was 10/11 of the rents realised by the Zamindars at the time, 1/11 being left to the latter as their share. This charge had to be paid within the fixed time limit failing which the estate could be sold by auction.

1. Report Indian Taxation Enquiry Committee (1924-25), p. 43.

It should be noted that the persons on whom the proprietary rights were conferred were never owners of those lands. They were originally officials of the Moghal rulers, who were revenue collectors on commission basis. They were mistaken for landlords in the English sense by Lord Cornwallis and his advisets who did not understand the conditions of the country.

The revenue charge fixed was fairly heavy at the time but later the value of land gradually rose due to increased secutity and higher prices and the charge became very light. This enabled the Zamindars to increase their rents, since no legal limitations were put on the enhancement of rents by the Regulation. On the other hand subsequent Regulations (in 1794, 1799 and 1822) and later the Act of 1885 authorised the proprietors to increase their rents on certain grounds. The Zamindars' incomes increased with increased productivity of land while the share of the state stood where it was fixed. In 1900, for instance, it was officially estimated that the land revenue paid to Government from permanently settled areas amounted to less than Rs. 4 crores, whilst rentals in the same area came to no less than 16½ crores[1]. More of this later.

Permanent settlement was extended to some other areas of India too. Benares came under it in 1795 where also the Bengal model was followed. The existence of joint landlord villages wete ignored and the Government dealt with one of the chief co-sharers or some other prominent petson on the basis of permanent settlement. In Madras also the same system was ttied. It succeeded in the north of the Presidency, as it was called then, and also in some parts of the South, where individual landlords, descendents of former ruling chiefs existed. But in the major portion of the presidency there existed Ryotwari villages, where no such intermediaries were available. Attempts were made to create substitutes by auction to the highest bidder. But the system failed miserably and had to be replaced by the Ryotwari system. But before this system could be adopted between one-fifth and one-third of the Presidency had already come under the permanent settlement. The systems was also extended to parts of Bihar and U. P. (Oudh).

During the 19th Century proposals were made from time to time to further extend the system of permanent settlement. But all such proposals were finally rejected in 1883. In the meantime as the British rule extended the revenue system adopted and land tenure recognised were according to local

(1) Government of Indias' Resolution on Land Revenue Policy. P. 82.

conditions. Where land was under the occupation of high chiefs or landlords the landlords proprietary rights were recognised though the settlement of revenue was to be temporary. Where village communities were strong, the proprietary rights were vested in the village community, especilly in the land which existed as the village commons. Even where individual ownership in such communities existed the ultimate ownership was regarded as of the community. Where the village community was not strong and specially where the cultivators were to be induced to occupty and cultivate land, the Ryotwari system was introduced in which each individual occupier contracted to pay revenue on the land occupied by him. The ultimate ownership of land was vested in the state. Thus it was that in Indo-Pak Zamindari temporary settlement came to prevail in parts of the Punjab, U. P. and C. P. Mahalwari or (village community) temporary settlement was introduced in parts of the N.W.F.P. and U. P. and Ryotwari (Temporary Settlement in Bombay, Sind, Madras, Assam and C. P.

4. The Case for Permanent Settlement.—During the 19th Century, as we have already said, proposals were made again and again to induce the government to introduce permanent settlement all over India. Even as late as the end of the century in 1900 R. C. Dutt (the well-known Economic Historian of India) in his "open letter" to Lord Curzon, criticized the land revenue policy of the Government, attributing the dreadful consequences of the famines at the close of the century to this policy. Dutt favoured the Permanent Settlement to which he attributed the prosperity and resourcefulness of Bengal peasantry. Along with certain retired European members of the Indian Civil Service, Dutt also presented a memorial to the Secretary of State. His "open letter" led to the issue in 1902 of the famous memorandum of the Government of India, in which their land revenue policy was outlined and defended. The issue of Permanent Settlement ceased to be a live issue for some time though its supporters have always existed. In 1924-25 for instance, a number of witness favoured it before the Bombay Land Revenue Assessment Committee.

More recently, three important members of the Bengal Land Revenue Commission (1938-40) in a Minute of Dissent argued in favour of the Permanent Settlement, though the majority of the Commission recommended its abolition.

Permanent settlement has been supported on various grounds. It is argued in the first place that from the financial point of view the system has insured a fixed and stable revenue for the state which can be collected without much

expense. To this it may be pointed out that the system actually has deprived the State of the share in the growth of revenue. The revenue has been stabilised but at a very low level.

Secondly, it has been pointed out that the system helped in the consolidation of the British rule in India by creating a loyal class of Zamindar. This in any case was a doubtful advantage even if the argument is accepted. In fact the Permanent Settlement did little to help the British Rulers. British rule was consolidated elsehwere witnout the help of such a system.

It has further been argued that the system has created leaders in the social and political fields who have helped the Ryot by spreading "education, sound ideas, and sanitation." This advantage again is doubtful, especially the political leadership of a loyalist class. There has not been many achievements in the field of education and sanitation in Bengal and other permanently settled areas. Bengal—apart from Calcutta—has been one of the most poverty stricken and backward provinces of British India. Even if the Landlord class has contributed something to the advancement of the people the price paid due to the Permanent Settlement has been out of all proportion to the benefits received.

Finally it has been pointed out with little regard for facts that the permanent settlement has created a prosperous peasantry with resourcefulness and enterprise. The fact is that Bengal Peasantry is amongst the poorst in the whole of the Indo-Pak sub-continent. Famines have been as common in Bengal as elsewhere and the general living standard of the mass of the people is extremely low. It is difficult to understand how peasantry can develop initiative enterprise and resourcefulness when the absentee landlord and a host of other rent receiving intersts are there to squeeze out of the peasant any surplus over mere subsistance as soon as it aries. If the land revenue had been directly settled with the cultivator, then perhaps the peasantry would have prospered, with no fear of future enhancements. As it is the Zamindar and his agents have been getting fat at the expense both of the public treasury and the actual tiller of the soil.—

5. **Case for Abolition of Permanent Settlement.**—The disadvantages and the evil consequences of the system of Permanent Settlement especially in Bengal were more and more brought to the notice of the public. Soon after the achievement of Provincial Autonomy, therefore, in 1938 the Govern-

ment appointed a Commission under the chairmanship of Sir Francis Flouid.—The Bengal Land Revenue Commission—to examine the land revenue system of Bengal with special reference to Permanent Settlement. The majority of the Commission favoured the abolition of the system on the following grounds:—

(*a*) It has deprived the Government of share of increase in the value of land which has resulted on account of the increase in population and extension of cultivation. Further the Government has been deprived of the revenues from minerals and fisheries which could have been legitimately claimed.

(*b*) It has deprived the Government of intimate knowledge of rural conditions as afforded by Temporary Settlements. When the revenue has to be assessed periodically detailed records are kept about the land, its ownership, its character and fertility, its productions etc. and of other rights and obligations of the people connected with it. This affords a clear picture of the economic conditions of the area concerned. Such data can be of immense use to the Government in framing its policies and programmes especially those related to the economic advancement of the masses. In a Permanently Settled area there is no pressure for maintaining such records. Authorities, are therefore, more or less in the dark about the conditions prevailing in rural areas under such a system.

The Commission favoured the replacement of the system by a Ryotwari system and added, " Whatever may have been the justification of the Permanent Settlement in 1793, it is no longer suited to the conditions of the present time. A majority of the Commission have also come to the conclusion that the Zamindari system has developed so many defects that it has ceased to serve any national interest. No half measures will satisfactorily remedy its defects. Provided that a practicable scheme can be devised to acquire the interests of the classes of rent receivers on reasonable terms the policy should be to aim at bringing the actual cultivatros into the position of tenants holding directly under Government."

6.—**Sub-Infeudation the Greatest Evil of Permanent Settlement.**—Sub-infeudation the greatest evil of Permanent Settlement requires treatment in greater detail. By sub-infeudation is meant the emergence of a large number of rent receiving interests between the or cultivator and the State

(1) Bengal Land Revenue Commission Report vol. I. P. 42.

through the process of sub-letting of land. Sub-in-feudation to some extent exists even in Temporarily settled areas of Pakistan but its most serious manifestation has been in Bengal under Permanent Settlement The basic reason for this development has been the existence of a big margin between the economic rent (surplus over bare cost of production) of an estate and the land revenue demand of the Government. This margin has enabled a large number of rent receiving interests to squeeze themselves between the state and the tiller of the soil each having his share represented by the difference between what he receives from the one below him and what he pays to the one above him. Baden-Powell has graphically described how such a situation has arisen The landlord "did nothing for the land, and even when there was no glaring personal defect, the climate and habits of the country unfortunately suggested that the proprietor should save himself the trouble by farming out his estate to any one who would give him the largest profit over and above his revenue payment And as the proprietor farmer in time grew rich so the too farmed his interest to the other, till farm within farm because the order of the day, each resembling a screw upon a screw, the last coming down on the tenant with the pressure of them all[1].

The extent of sub infeudation in Bengal thus reached unbelievable proportions The Simon Commission observed in 1926 that in some cases as many as 50 or more intermediate interests existed between the Zamindar at the top and the cultivator at the bottom The Bengal Banking Enquiry Committee in 1930 found that in an estate in Barisal (Bakarganj district of E Bengal) there were as many as 30 intermedinary tenures one under another In 1940 the Bengal Land Revenue Commission observed that intermediate interests between the Zamindar and the actual cultivator in some districts of Bengal had reached "fantastic proportions" From 15 to 20 grades of tenure holders are not uncommon in some districts of East Bengal The worst districts in this respect are Dacca, Noakhali, Jessore and Bakarganj In the districts of Mymensingh, Teppera, Khulna, Sylhet and Chittagong it is present in a fairly high degree In the districts of north e.g, Rangpore Bengal, however, the evil is not so much and only a few grades of middlemen are found[2].

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(1) Land System of British India of cit. P 407.

(2) For details see Syed Ahmad Sub-Infendation in the Land System of East Bengal Pakistan Economic Journal August 1950 pp. 68—71

Sub-infeudation has had far reaching economic and social consequences. It has created social conflicts between the rent receiving and the rent paying classes. It has made the land system of the province very intricate and has opened up opportunities for exploitation and fraudulent practices. Economically it has created a rackrented, improverished and oppressed peasantry. It has stood in the way of all progressive agriculture. On the other hand it has created a useless class of parasitic rent receivers who contribute nothing to the productivity of the land. Thus due to this system as the Bengal Land Revenue Commission pointed out. "The land is no bodys' concern" in Bengal and hence is entirely neglected. It has led to enormous increase of rents for middlemen while the State has been deprived of the fruit of the increased income from land. Finally the system has greatly increased the number of landless labourers which form about onethird of the total agricultural population of the Province. Politically the system is fraught with dangers to the stability of the present order of society since it has created an exploited oppressed and discontented mass of humanity susceptible to any form of subversive propaganda.

7. **Loss of Revenue to the State.** The second great defect of Permanent Settlement as we have already noted is that it has deprived the State of its legitimate share in the increased income from agriculture. In 1793 the State realised from the ·ermanently settled areas Rs. 283 lakhs which represented 90% ·f the *gross rental* of the land. Accoreing to Sir John Shore the Governments share was 45% of the *gross produce* of the land, the landlord getting 15% and the cultivator 40%. This was quite a heavy assessment. By 1904 the Government's share fell from 90% to 24%. The Zamindar's income increased from Rs. 3.18 crores in 1791 to 14.72 crores in 1904[1]. The annual loss of the government in the present generation for th- pre-partition Province of Bengal was estimated at Rs. 8 to 12 crores by the Bengal Land Revenue Commission. In addition to this the system takes no account of the incomes from minerals and river fishereis which entails a further loss to the State. In terms of net addition to the Land Revenue in East Bengal it has been calculated that the Province could increase its income by about Rs. 2½ crors[2] a year if the Permanent Settlement were to be replaced by a Ryotwari system of land

(1) Panandikar Wealth and welfare of Bengal Delta pp, 123-4.
(2) K. B. Mohammad Mahmud. The Problem of Land Tenure, Pak Econ. Journal August 1950 P. 53.

revenue. The estimate is based on the present rentals. It is however, expected that with the abolition of Permanent Settlement and Zamindari Tenure the creative forces of land and labour will be released resulting in great productivity of the soil. There will be more incentive for introducing agricultural improvements and more opportunities of applying science to agriculture.

8. **East Bengal State Acquisition and Tenancy Bill, 1948.**—The Report of the Land Revenue Commission recommending the abolition of Zamindari and Permanent Settlement was issued in 1940. It was examined by a special officer appointed for the purpose but on account of the war no action was taken at the time. The consequences of the war and the Famine of 1943 made the plight of the peasantry unbearable and impressed upon the Government the necessity of taking measures to reform the out-moded land system of the province A Bill—the Bengal Land Acquisition and Tenancy Bill—was introduced into the Provincial Assembly but before it could be passed came the partition. After the Partition (in 1948) the Pakistan's Ptovence of East Bengal framed a new Bill—The East Bengal State Acquisition and Tenancy Bill—in certain tespects different from the prepartition Bill. This Bill was passed by the Provincial Assembly on 15th February, 1950.

The BIll provides for the acquisition of rent receiving interests beyond a certain minimum in all lands agricultural and non-agricultural. The out going rent receivers will be paid a compensation on the basis of their net incomes according to a sliding scale. The compensationwill vary from 10 times the net income upto incomes of Rs. 500 to 2 times in the case of incomes over Rs 1,00,000. Provision is made for scaling down of the debrs of out going rent receivers in proportion to the fall in their incomes and payment to them of 50% of the rent arrears due to them. The Bill obolishes service tenancies and confers occupancy rights on service tenants. Agricultural tenants have been given permanent, heritable and transferable rights in their lands. The maximum limit of a holding is fixed at 100 bighas and so are fixed the maximum rents to be paid for each kind of land. The latter are roughly fiexd at one-tenth of the total value of the annual gross produce. Provision is made for consolidation of holdings if desired by ryots of a village or a block of villages provided they form at least two-thirds of the total number ryots and hold three-fourths of the cultivable area.

As a result of this measure the present system of Permanent Settlement will disappear in due course of time and a Ryotwari System establishedin its place. Settlement will become periodic and the land revenue will be determined according to the principles of assessment now in force in Ryotwari areas. The state will deal directly with the cultivator. Sub infeudation, however will not entirely disappear since rent receving interests of areas below 100 standard bighas have not been touched. The evil, however, will be brought under manageable proportions.

As regards financial results on the basis of the present data these have been calculated as follows :— (1)

	Rs. Lakhs
Total Raiyati assets, including cesses payable by raiyats	8,24
Total deductions, on account of revenue, cesses and cost of management and for remissions of irrecoverable sums	4,87
Increase of land revenue	3,37
Add. Increase of land revenue of Sylhet District ...	24
Total increase of land revenue	3,61
Deduct loss in other sources of revenue (Agr. Inc. Tax, Stamp Duty etc)	1,20
Net Increase of Revenue	2,41

The compensation payable has been calculated at Rs. 31 crores. Some cost will be incurred on revision of records etc. If the net increase in revenue immediately following the aquisition were to be used for paying the compensation the whole transaction could be completed in about a dozen years.

The change in the system in fact will increase the income of the State much more than indicated by the above figure. As already noted many improvements in agriculture will become feasible when the cultivator is put directly under the Government. In fact the whole agricultural economy of the province could be reorganized if the Government wished to do so.

(1) Khan Bahadur Muhammad Mahmud Member Board of Revenue East Bengal Pak Econ. Tomnel opcit P. 52—53.

Some people think the rate of compensation allowed is high. This is not a fact. The rate is lower than allowed by similar measures proposed or raken in India. The U.P. Bill allows 8 times the net income to all plus a rehabilitation grant to those whose aggregate land revenue is less than Rs. 5,000. The Madras Act grants Compensation on a graded scale varying from 12½ times to 25 times the net income. The Bihar Bill allows compensation from 3 times to 30 times the net income The Prepartition Bengal Bill allowed compensation going up to 15 times the net income, the average coming to 10 times the net income. The land revenue Commission had recemmended a flat rate 10 times the net income. In the East Bengal Bill the rate varies from 10 times the net income in the case of those whose income is up to Rs. 500 to twice the net income in the case of those whose incomes are above Rs. 1,00,000. This is a good compromise between those who are against any payment of compensation and those who recommend high rates of compensation.

9.—Temporary Settlements.—Temporary Settlements are not of a uniform character. Here differences arise due to:—

(i) The character of tenure held by persons from whom the charge is collected.

(ii) Differences in the period of settlement.

(iii) Difference in the method of calculating the charge (a) in arriving at the "net assets" and (b) in the porportion of such assets taken by the government.

(i) As regards the person by whom the charge is paid, as we have already seen, the determining factor is the systam of land tenure. From this point of view we arrive at the following classification :—

(a) Zamindari Settlements or settlement of single estates under one landlord e.g. Temporary settlements with Zamindars in areas not brought under Permanent Settlement. Such settlements exist in parts of the Punjab and N.W F.P. Here the single estate holder is a properietor in full sense of the term.

(b) Mahalwari Settlements or settlements of estates of village communities as in the Punjab and also in N.W.F.P. Here the individual peasent proprietors hold land and are individually and collectively responsible for the payment of the revenue. The ownership in such villages is indivieual and collective, collective ownership is active in the case of

waste and undistributed and other unclaimed land. The revenue is paid through the headman of the village. The same village, may comprise of more than one 'communitiy' and and hence may have more than one headmen.

(c) Ryotwari Settlements. Here the settlement is made with individual holders or ocupants who are not owners in the full sense of the word. The land belongs to the State. The holder may be called a " Zamindar " especially when he holds large estates as in Sind, but he only enjoys rights of occupancy. The rights, however, are heritable and in most cases alienable and partible. The holder only pays revenue for the land he actually wishes to cultivate.

(ii) As regards the period of settlement it has varied from 20 to 40 years in the Indo-Pak subcontinent. In C. P. it is from 20 to 30 years ; in Berar from 25 to 30 years ; in Madras and temporilly settled areas of Bengal it is 30 years. In the Punjab it is 40 years. Roughly the period is 30 years in Ryotwari areas and 40 years in the Zamindari and Mahalwari areas.

(iii) " The " net assets " of an estate, or group of estates, means the estimated average annual surplus produce of such estate or group of estates remaining after deductions of the ordinary expenses of cultivation as ascertained or estimated."[1]

The " net assets " may be estimated on " the basis of recorded rentals " as in the Punjab or empirically on the " subjective impressions " of the Settlement Officer as in Bombay which system was also followed in Sind though later modified. More of this later.

As to the maximum proportion of the net assets or the rental value, charged as land revenue, again differences prevail. Historically speaking the percentage appropriated now in the various provinces is much less than in the early years of the British rule. Early in the 19th century tht demand of the state was limited to two-thirds of the net assets. " About the middle of the century," in the words of the well-known Government of India Resolution on Land Revenue Policy (1902), "*i.e.* before the Mutiny, the question of the relative shares of the state and the landlord in the net produce of the soil came again under careful review in Northern India, and the result of this further consideration of the matter was embodied in what are known as the Saharanpur Rules. The Settlement Rules previously in force, authorised the

1. Section 3 8 of Land Revenue Act XVII of 1887 as ammended by the Punjab Act III of 1926.

demand of the money value of two-thirds of the net produce of an estate as the government shares in respect of land revenue. The Saharanpur Rules, issued in 1855, laid down that in taking the net average assets with other data in to consideration the collector well bear in mind that about one-half and not two-thirds as heretofore of the well ascertained net assets should be the Government demand."

Now as to the actual practice prevailing at present in Pakistan, in the temporarily settled areas of Bengal the principle is to leave 30% of the net assets to the landlord and to take 70% as land revenue[1]. In some cases higher allowances are paid to the landlord and the State demand is correspondingly reduced. In Sind, the practice is to charge $33\frac{1}{3}\%$ of the net assets though the standard fixed was 40% after the construction of the Lloyd Barrage[2]. In the Punjab up till 1928 it was 50% but since then it has been fixed at 25%. In practice it rarely reached 30% of the net assets[3]. The practice in N. W. F. P. is the same as in the Punjab. Thus the most usual practice is to charge from one-quarter to one-third of the net assets except in Bengal where the percentage charged is much higher, in fact it is too high.

10. The Incidence of Land Revenue.—Is the land revenue burden excessive? The defenders of the policy of the Government have argued that the burden is far from very heavy. Historically the charge is considerably less now than it was either under the Hindu or the Muslim rulers. Thus Manu took from a 12th to a 6th of the *gross produce*, and in "times of war or other public calamity" as much as fourth[4]. The share was more under the Muslims but finally stood at a third of the gross produce under Akbar. The Sikhs in the Punjab took one-half and sometimes even more. As a rule the demand under the Sikhs varied from two-fifth to one-third of the *gross* produce. It was in 1860 that the British fixed the maximum demand at one-half of the *net assets*, though actually it came to less than 30 per cent of the rental. Measured in terms of gross produce the average charged for three years ending 1936-37 was only 6.7 per cent. "If we were to take the last three pre-depression years," wrote the Punjab Revenue Committee (1938), "the

1. Khan Bahadur Mohammed Mahmud : Pak. Econ Journal op cit. P. 45.
2. A. H. Yusufzai : *Land Tenure in Sind Pak. Econ. Journal* August 1950 P. 107.
3. Punjab Land Revenue Committee Report P. 2 (Table)
4. Taxation Enquiry Committee Report (1924-25) p. 39.

proportion would probably be less than 5 per cent. Compare with this the 33 to 40 per cent taken by the Sikhs a hundred years ago."[1].

The average land revenue per cultivated area in the Punjab came to Rs. 1-9-2 per acre for three years ending 1936-39.

The following figures[2] give incidence of land revenue per cultivated acre and per head of population in 1939 in some important provinces of pre-division India :—

INCIDENCE OF LAND REVENUE IN 1939

Province	Per cultivated acre			Per head of population		
	Rs.	A.	P.	Rs.	As.	P.
Bengal :—						
Permanent Settlement ...	1	4	0	0	12	0
Temporary Settlement ..	3	4	0	0	11	0
Oudh :—						
Permanent Settlement ...	1	6	0	1	15	0
Temporary Settlement ...	1	15	0	1	9	0
Punjab :—	1	15	0			
Bombay :—						
Ryotwari	1	11	0	1	15	0
Madras :—						
Ryotwari	2	8	0	1	15	0
Zamindari	1	6	0	0	14	0

Thus it is argued by the supporters of the present system that the burden of land revenue per acre as well as per head of population is extremely low and as compared with what it used to be in the past, it is insignificant. Further, it is asserted that even if this burden was abolished it would go to a class of rent-receivers and would not benefit the actual cultivator.[3] Moreover, it is suggested that the prosperity of the cultivators increased under British rule while the tax burden was thus reduced. And finally, that the land revenue is not a tax but a rent, and as such it does not enter into the cost of production and does not affect the prosperity of the cultivator.

Whether the land revenue is a rent or a tax is a controversial issue which we shall examine presently. As regards the other arguments given to support the thesis that the land revenue is not a serious burden on the Indian peasantry the following reply may be given :—

(*i*) Under the Hindu and the Muslim rulers the land revenue was fixed and collected in kind, therefore its burden

1. Report, p. 11.
2. Taken from Wadia and Merchant. 'Our Economic Problem', p 246.
3. Vera Anstey Economic Development of India P. 377.

varied with the capacity of the assessee to pay. At present even though remissions ahd suspensions are granted the charge being fixed in cash it becomes very oppressive when prices are low. The amount and methods of collection now are much more rigid than they used to be under the Indian rulers.

(*ii*) The pressure on land considerably increased during the British period due to increase in population and decay of handicrafts. Even after a high percentage of gross produce was taken away by Indian rulers the total produce per family being larger the residue was enough ro maintain them in their customary comforts Now the land per family is very small and hence their total produce is hardly enough to maintain them for the year. Even a small portion of this small supply may impose painful burden on the family recources.

(*iii*) Even if we accept the proposition that the present burden is lighter than it used to be several hundred yeas ago, it does not justify the present burden if it is an unjust burden. We must not apply the 16tn century standards of justice when we are living in the 20th century. A revolution has occurred since the Moghal times in the conceptions of Government and the relations of the rulers and the ruled. We must judge the justice of the land revenue on its merits, according to modern theories of texation.

(*iv*) To say that the benefit of abolition will go only to the rent receivers will hardly stand examination. Many land revenue payers are oeasant proprietors ; they will be directly and immediately benefited from any reduction or abolition of this charge. As regards the big absentee landlords (if they have to continue at all) in their case the burden is too light rather than roo heavy. They should pay higher amounts not as land revenue but as tax on agricultural incomes. This has been done in some of our provinces e.g. Punjab.

(*v*) As regards the increase in the prosperity of cultivators this is not a definitely established fact. Opinions differ whether the average cultivator today enjoys a more wholesome food, clothing and health than he used to do in centuries gone by. Even if his poverty has decreased (we can hardly talk in terms of prosperity). that is no justification for putting a burden on him for which his economic capacity does not befit him. Have the classes who have really prospered under the British rule paid their quota in a similar proportion ?

(*vi*) The real reason why relief is denied to the peasant cultivator is that, even if uneconomic holdings are exempted

from land revenue, the effect on Government finances will be so disastrous as to preclude all reforms in this direction. We shall come to this point later.

Now let us examine the theory that since land revenue is not a tax but a rent suggestions for the application of the principles of texation to it are not justified, nor does its payment affect agricultural prosperity since it does not enter into cost of production.

In this connection we have to examine two propositions: (*i*) Whether land revenue is a tax on rent. (*ii*) In practice, even if it is a rent, does the cultivator get reasonable return for his labour and enterprise before he pays the land revenue? In other words, does it come out of the true economic rent of the land or does it encroach upon the fair returns to the cultivator as labourer and enterpreneur.

11.—Tax or Rent.—Whether the land revenue is a tax or rent is a controversy of long standing but with little practical bearing on matters of policy. Baden Powell has called it a "war of words". Even if we agree that the State in Pakistan (& India is the universal landlord, and hence the land revenue is a rent, this does not justify the imposition of this charge without reference to the welfare of the people. Even a landlord, if he is enlightened, may exempt uneconomic holdings from rent. When the landlord is also the State the welfare of the subjects and not any theoretical right to the imposition should be its primary consideration. If the small holder requires relief, he must get it whether the payment he is making as land revenue is theoretically regarded as a tax or a rent.

But as it is, certain exceptions apart, the State in (Pakistan and India) does not claim the right to the ownership of land. Referring to prepartition India Baden Powell pointed out, that with regard to the Zamindari districts of Bengal, North Madras, and Oudh, and the joint village districts of the United Provinces, and the Punjab, the British Government had definitely stated that property right in the soil "has been declared vested in the land-holders" and any reservations made, in the latter areas, referred not to State rights but to the "rights of subordinate holders and tenants". In Roytwari districts the State had a "residuary right" with regard to vacated and waste-land, but had no power to eject a cultivator "except as a result of process in default of revenue payment." "Hence," he conclude, "the 'recognized ownership' of Government does not exist at all in a large part of India, and

in other parts only in a very qualified manner."[1]

But even then we cannot categorically say that land revenue is not a rent but is a tax. This charge contains features of a tax as well as a rent. Since it is a compulsory levy of the State periodically collected it resembles a tax. But since almost[2] all lands have to pay it and it has no element of progression, and in some provinces it is in addition to a tax on agricultural incomes (leviable also in others) one might think it is a rent. "Perhaps it would be nearest to say," remarks Vera Anstey, "that it is a tax on rent, and that as a large proportion of the actual cultivators in India are in a sense "land-owners", there is no doubt that the Government is receiving as revenue an income that would otherwise go into their pockets."[3]

12. **Lines of Land Revenue Reform.**—So far as the reforming of the present system is concerned, as already said, whether the land revenue is a tax or a rent is a matter of no consequence. Various kinds of suggestions have been made to improve the present system. Usually two objects are kept in view in this connection: (*i*) Relief to the holders of very small holdings. (*ii*) More equitable distribution of the burden of taxation as between the larger land revenue payers and payers of other forms of taxes.

The various suggestions for reform may be indicated as under :—

(1) Abolition of the Permanent Settlement. This we have already considered and approved and need not consider again.

(2) Some people would like to bring the present temporarily settled areas also under Permanent Settlement. We have already dwelt upon the defects of the Permanent Settlement which rule out this particular suggestion.

(3) Some suggest the abolition of the land revenue as such and substitution in its place an income-tax on incomes derived from agriculture.

(4) Others would like to apply the principles of income-tax to land revenue, *i.e.*, exemption of small holdings and imposition of a graduated rate on larger owners.

(5) Finally, some writers expose the defects of the manner in which net assets are calculared especially in the Punjab and would like to make this estimate more scientific.

Suggestions (3)—(5) deserve consideration.

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1. Quoted by V. Anstey, op. cit., p. 376.
2. Some lands are revenue-free grants.
3. V. Anstey, op. cit., p. 376.

13. **Relief to the Small Holders.**—One school of thought suggests the entire abolition of the land revenue charge and subsituation in its place of an income tax on agricultural incomes. Of course agricultural income tax can be introduced for larger owners without abolition of the land revenue as has been done in the Punjab and elsewhere as we shall see in a subsequent chapter on Provincial Finance. The abolition of land revenue aims primarily at relieving the small holder of the burden of this payment. In this connection, therefore, several questions have to be carefully considered before any decision can be taken. Such are:—

(*i*) Is it desirable and justifiable on political, economic and ethical grounds that the small holder should be entirely freed from making any direct contributions to the revenue of the State?

(*ii*) If he is given this relief, how far will it make a significant improvement in his standard of living or methods of production?

(*iii*) What will be the extent of the financial loss to the Government? Could this loss be made up by alternative sources? If not, what are likely to be the consequences of this curtailed government expenditure on the welfare of the people —including the exempted small holders?

(*i*) The land revenue assessment and collection no doubt necessitates the keeping of records of land, its produce and property rights, etc., and these records are of great value to the administrator and the economist. Politically land revenue payment was linked with the voting right, though now adult suffrage has been introduced. But these are only incidental advantages. The system must be justified on more fundamental grounds. The Punjab Land Revenue Committee drew attention to the ethical and social aspects. land owner especially in the Punjab enjoys special privileges[1] and protection given by the

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1. "The land of these Agriculturists cannot be sold in execution of a money decree or mortagaged to a non-agricultursr for more than 20 years. A landowner cannot be evicted by a civil court without the intervention of the revenue authority, and he is entitled to retain enough land for the maintenance of himsel and his family. His plough, cattle, implements and seed cannot be attached. If he is sued and his interest charges exceed certain statutory limits, they can be reduced. The burden of proving that consideration has passed is on the money-lender nor can a decree be passed against him for more than twice the principal. When he dies his ancestral land is not liable for the payment of his debts unless charged upon it. Finally under an Act of 1934 Conciliation Boards are being set up all over the province to seetle his debts." Report p, 74.

State. Hence he should make some contribution to the State treasury by virtue of his being a landholder. One witness[2] asserred before the Pb. L. R. Commitee that the small holder would not like being exempted from the land revenue charge which enhances his self importance, dignity and *izzat*.[1] The appeats very doubtful. Small holders would jump at the idea of exemption. As regards the "privileges" the protection given by the State to a class liable to be exploited by the still mote privileged classes, cannot be put forwatd as a justification for imposing a tax on the former, if they have no capacity to bear this burden and if other classes are not taxed to the same degtee of burden.

Regarding (*ii*) Mrs. Anstey holds that "judging from past experience, it appears likely that part of the increased income would be squandeted on increased expenditure on ceremonies, and that the rest of it would be swallowed up by an increase of population, tather than in any imptovement in the standard of life or methods of cultivation."[2] This again is a very unconvincing argument. Does the Government while considering taxes on other classes of population ptobe into the way the money would be spent if the tax is reduced or abolished? Cettain social cetemonies are as important to the poor cultivator as ate various kinds of recreations and social expenditures to the betrer-placed classes. Of coutse the pooter sections should be instructed as to the manner in which they can get the best advantage from their small incomes. This should be done by extending educational facilities not by taking away a part of their meagre incomes in the form of a tax.

(*iii*) Finally, we come to the financial consideration. If land revenue is abolished and an incometax is imposed on agricultural incomes with the usual exemption limit, the revenue of the Government will fail very seriously. Even from the bigger landlords the incometax charge will bring much less than the land revenue charge. The latter is roughly 25 pet cent of their net income from land. The average incometax rate will be much less. Even giving exemptions to small holders without abolishing the charge on the larger landholders will mean a serious curtailment of revenue. The Punjab Committee estimated that if those who paid less than Rs. 500 (with net assets of Rs. 2,000—same limit as in incometax) wete exempted the total "land revenue will be reduced from Rs. 4½ crores to 30 to 40 lakhs."[3] Even if incomes up to Rs. 250 were exempted,

1. Written Memorandum by Sir G. de Montmorency,
2. Anstey: op. cit, p. 337.
3. Report, p. 72.

the Committee estimated the loss at over Rs. 2½ crores. In terms of land revenue if only those who pay Rs. 10 a year or less are exempted the loss to the Government on the basis of figures for 1938, will be to the tune of Rs. 78.6 lakhs. Thus while Rs. 10 a year will make no significant change in the economic position of the small holder it will create a serious gap in the finances of the Government and will curtail useful activities of the Government unless this gap can be made up from some other sources. In a poor country like India or Pakistan in the words of the Punjab Committee, "the amountof revenue that can be raised from the better-to-do classes is not very large, and the process commonly known as "soaking the rich", which is fruitful enough in a wealthy country like England has only a very limited scope. If any considerable sum has to be raised, it cannot be easily done without spreading the fiscal net over the whole community and levying a small sum from as many people as possible.[1]

We are inclined to agree with this view. Unfortunately, it is impracticable to relieve the small holder from the entire burden of land revenue. We also endorse the recommendation of the Punjab Committee in which they recommended [2] relief to the owner cultivator by reducing his charge by 25 per cent after assessment at the usual rate.

11. **Definition of Net Assets.** Another attack on the land revenue policy of the Government especially in the Punjab relates to the methods of arriving at the net assets. We have already seen how net assets in the Punjab are estimated. They are net assets of the landlord. Professor Brij Narain contended when the matter was under consideration by the Pb. L. R. Committee of 1938, that these net assets are not the true net assets when applied to the owner cultivator. In the words of Prof. Brij Narain: "The non-cultivating landlord is able to exploit the tenant because of the constantly growing pressure of population on the soil. Land is scarce relatively to demand, and there are no alternative means of earning a livelihood for the tenant class. Under such conditions it is not surprising that the landlords' share should contain a large element of loot."[3] He recommeuded that net assets should be calculated directly and account should be taken of all the items of costs including the fair wages of the cultivator and his family.

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1. Report, p. 73.
2. Report, p 64.
3. Land Revenue Reform in the Punjab, issued by the Institute of Agrarian Reform, p. 10.

The Land Revenue Committee, to meet this criticism, quoted comparative statistics based upon the data given in the Punjab Farm Accounts for the years 1927-28 to 1936-37.

Their conclusion was that during this period of 11 years only in three years (*i.e.*, 1930-31, 1931-32 and 1933-34) the landlords' net assets were higher than the owner-cultivators' net assets. On taking averages of three periods of 3 years, 4 years and 3 years respectively it was only during the middle period in which owing to depression the owner-cultivator would have been at an advantage if net assets were calculated by directly taking into account the cost of production of the peasant proprietor.

These figures were forcefully challenged by Prof. Brij Narain, who contended that "these figures are cooked figures, and of no value for scientific purpose.[1] He asserted that true figures relating to the farm in question had been altered and moreover nothing was said about the "assumed wages" It appears the Committee took Rs. 120 per adult labourer per annums as wages in calculating cost of production for the owner cultivator. This was done for depression years as well as pre-depression years. This was unscientific according to Prof. Brij Narain. Taking a higher wage rate in proportion to higher prices in predepression years Prof. Brij Narain arrived at the following table[2] comparing his figures with the figures of the Committee.

Year	Landlords' net assets		Owner cultivator's net assets	
	actual	cooked	actual	cooked
	Rs.	Rs.	Rs	Rs.
1927-28	37.57	42.85	29.36	44 70
1928-29	39.04	44.79	36.45	52 62
1929-30	36 36	42 27	25.71	43.23

Thus taking the "actual" figures landlords' net assets are higher than ownet cultivators' net assets in each of the three years.

Prof. Brij Narain further contended that if adequate wages were allowed on this particular farm the percentage of costs to gross income was as high as 60.4 while the Settlement Officer who assessed the Lyallpur tehsil assumed this percentage to be 56. In fact this Risalewala farm being a Government farm was not typical of the area. In other farms,[3] accounts showed that

1. Agricultural Worker and Punjab Land Revenue Committee by Brij Narain, (issued by the Institute of Agrarian Reform), p. 10.
2. Ibid, p. 17.
3. Farm Chak 243 — B. (see Ibid, p. 20.)

even allowing wages at Rs. 120 per annum per labourer the percentage of total expenditure to gross income came to 82.03. "If the cost is allowed for at 70 per cent of the value of gross produce," concluded Prof. Brij Narain, "net assets are found to be Rs. 68,35,363, (Lyallpur Tehsil) instead of Rs. 1,00,55,363. The total standard demand is reduced from Rs. 25,13,977 to Rs. 17,08,841 and the demand per acre from Rs. 6-8-2 to Rs. 4-6 9, a reduction of more than Rs. 2 per acre."[1]

The Punjab Committee, however, was not in favour of changing the definition of net assets. They concluded : "Considering the increase in expenditure, the difficulty of obtaining reliable returns, and the doubt whether even at present prices change would be of advantage to the land revenue payer.; considering the fact that nearly sixty per cent of the cultivated area is leased to tenants, we are strongly in favour of maintaining the present system."[2]

As regard Prof. Brij Narain's criticism the whole issue hinges upon what rates of wages are allowed. "The prices of these two crops "(cotton and wheat) wrote Prof. Brij Narain were 87 per-cent higher in precrisis years, it follows that wages must be allowed at the minimum rate of Rs. 225 per annum per adult worker "[3] (87 per cent higher than Rs. 120 allowed for the depression period).

Pror. Brij Narain himself accepts 113 of gross produce as enough to remunerate the cultivator for his labour, "taking four or five years of normal prices."[4] He supposed the gross value of produce of half a square at Rs. 600. And he agreed in his evidence that two[5] men would be required to cultivate half an acre. Thus Rs 100 per labourer would be a fair wage. The average gross produce during the three pre-depression years (ending 1928-29) of the Resalewala farm[6] (800 acres) was Rs. 77,363 or 960 per acre or 480 for half an acre. On this basis the rate of wages in pre-depression years would have been Rs. 80 per labourer per year. Prof. Brij Narain accepted the figure of Rs. 120 for depression years. This in itself was an over-estimate even for pre-depression years.

Further he allows 87 per cent more upon Rs. 120 (Rs. 225) for pre-depression years as wages per labourer. Even if Rs. 120

1. Ibid, p. 28.
2. Report, op. cit., p. 39.
3. Agricultural Worker, etc., op. cit., p. 30,
4. Ibid, p. 30.
5. Ibid, p. 15.
6. Ibid, p. 15.

was legitimate wage rate it is not scientific to raise the pre-depression level in exactly the same proportion as the height of the pre-depression prices. This would mean that wages had fallen during the depression to exactly the same extent as prices. This assumption is obviously unjustified, because wages proverbially lag behind. It would appear therefore that Rs. 12o per labourer was a fair allowance for pre-depression years on the basis of gross produce, and then of a farm managed by Government, hence presumably giving higher per acre gross produce than an average farm. For depression years Rs. 120 would then be an over-estimate of wage rare.

We are therefore inclined to agree with the conclusion of he Punjab Committee and especially since the subsequent rise in prices has altered the whole situation and has increased the paying capacity of the owner cultivator. We feel that the 25 per cent rebate recommended by the Punjab Committee should meet the inequalities, if any, arising out of the Indirect estimate of the owner cultivator's net assets. In periods of depression apart from suspensions and remissions and temporaty relief the sliding scale system introduced in the newly settled areas of the Punjab should considerably lighten the land revenue burden on the small holder.

15. The Sliding Scals System : New principles of assessment were formulated in the Punjab at the time of the resettlement of the Lyallpur district in 1935. These are known as the Sliding Scale System. The object cf the new system was "to enable the Government to pitch its demand high enough to take into account the possibility of prices rising to the average level of the last 20 or 30 years, and meanwhile to adjust this demand at each harvest to current prices."[1]

According to the old system the standard rates did not change during the period from one settlement to another, of course remissions and relief could be given according to the character of crops. The great fall in prices after 1930 necessitated this new system. The features of this system were described as below by a *communique* of the Government :—

(1) The commutation prices proposed to be fixed by Government have been worked out in accordance with rhe revenue law on the average of 20 years,

(2) Average revenue rates will be worked out according to rhose prices, and will determine the average rate for the assessment circle as a whole.

1. Land Revenue Committee Report, op. cit., p. 40.

Within the assessment circle the revenue rates will vary as at present, in accordance with the class of land and other factors. They will in some cases be higher than the average rate In other cases they will be lower.

(3) The revenue rate as finally announced for a particular square will represent the maximum which Government can take in any circumstances during the period of 40 years.

(4) Government will not take these maxima rates unless the general level of prices is at least as high as that represented by the prices given in the Schedule attached.[1]

(5) If in any year the general level is higher than that represented by the Schedule, the revenue payers will be given the full advantage of the excess.

(6) If in any year the general level of ptices is lower than that represented by the Schedule, a remission in the revenue rates will be given the following year proportionate to the difference."

Thus while the Government was "bound not to exceed the maximum rates as fixed" they would "give to the revenue payer the full benefit of the fall in prices, however great that may be."

To calculate the amount of remission to be given three factors are taken into account :—

(a) The percentage of the total matured area under each important crop.

(b) The average yield per acre of those crops.

(c) The commutation price assumed for each of those crops.

"By multiplying these figures together," continues the communique, "the Government will obtain an index figure. They will then calculate a corresponding index figure for the year previous to that for which remissions are to be given. Unless there are exceptional reasons to the country, it will be assumed that the percentage of crops remains constant and that the average yield per acre is also constant." They will, however, take the average prices current during the marketing season of the preceding two harvests in specified markets of the districts during specified months. "We will suppose that the standard index figure is 1,000 and that the index figure according to the

1. Commutation prices based on 20 years' average before the Settlement.

new prices is 600. The remission given then will be 40 per cent. Each year, a new index will be calculated and that amount of remission will depend on the level of prices during previous year."[1]

The sliding sale system was introduced in Sind in 1938 on an experimental scale It proved very successful and was extended to cover the cultivation of wheat, rice and cotton.

The strongest critic of the sliding scale system was Professor Brij Narain He raised two objections against it:

(i) That the system takes no account of the costs of cultivation

(ii) That it is based on not real but "theoretical or paper net assets"

"When prices fall heavily," writes Prof. Brij Narain, "and costs less heavily it is possible that net assets may wholly vanish. But the sliding scale assumes that the zamindar always enjoys net assets, provided that fall in prices is not 100 per cent."[2]

Prof Brij Narain, therefore, recommendeds that "remissions should be granted according to the fall in net assets, not merely according to the difference between commutation and actual prices."[3]

The Punjab Land Revenue Committee recognized this defect of the system They agreed that in a period of falling prices any remission given in proportion to the fall in an owner cultivator's gross income would not be in proportion to the fall in his net income. "But when prices start rising again," they added, "the reverse process sets in, and in time, it may be supposed, the two tendencies neutralize each other."[4]

The recent enormous rise in prices seems to have vindicated this view of the Committee.

The second objection taken by Prof Brij Narain was that the standard land revenue rates under this system are based on prices of 20 years back which were mere paper prices "There is little or no hope of a prise of rices equal to the commutation level," wrote Prof Brij Narain. The structure of world supply and world demand in regard to agricultural products has fundamentally altered Why should not future assessments be based

1 Punjab Land Revenue Committee, Appendix A, pp 157-159
2 India Bebore and Since the Crisis, Vol. II, p 611.
3 Ibid, p 617
4 Report, op cit, p. 51

on current prices, which are more normal than the absurdly high average prices of 1914—1929."[1] He, therefore, recommended that assessment should be made on "actual as distinct from prospective assets."[2]

Referring to Prof. Brij Narain's contention in his evidence that there was no possibility of a period of high prices returning during the next forty years," the Lord Revenue Committee added: " This assumes a prescience to which we at least can lay no claim, and ignores the unhappy possibility of war, which might greatly inflate the price of such commodities as wheat and cotton."[3] And so it did happen.

Thus while the commutation price for wheat assumed in the Lyallpur Tehsil Settlement was Rs. 3-12-0 per maund, wheat in recent years has sold at Rs. 10 or more per maund. This must have more than neutralized the over-assessment of the depression years.

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1. India Before and Since the Crisis, Vol. II. p. 614.
2. Ibid, p. 617.
3. Report, op. cit., p. 66.

APPENDIX TO CHAPTER XII

SUMMARY OF PROVISIONS
of the
East Bengal State Acquisition and Tenancy Bill 1948
as passad by the Provincial Assembly
on 15th February, 1950.

1. Acquisition of Rent-Receiving Interests. — Rent-receiving interests in all land, agricultural and non-agricultural, including fisheries, will be acquired by the government.

Khas lands of persons in excess of 100 bighas or 10 bighas per head in the family, which ever is greater, will be acquired for the purpose of distributing the acquired lands amongst the cultivators with uneconomic holdings and landless agricultural labourers. In addition to the above quantity of land, each family will be allowed to retain an additional area of land equal to the aréa covered by the homestead of the family, subject to the maximum limit of 10 bighs.

The rent-receiving interests of the proprietors of big estates, or the holders of big tenures directly under government and big patni taluks, and of all rent receivers whose properties are under the management of the Court of Wards, as also their khas lands in excess of the prescribed limit may be acquired by Government immediately after the enactment of the Bill, pending revision of records and assessment of compensation. Till the compensation is finally assessed the rent receivers and owners of khas lands of this category will receive an annual interim payment *(i)* one third of their annual net income from such interests in the case of rent receivers and *(ii)* 5% of the amount of compensation accruing to them in the case of khas lands. These payments will be adjusted to the compensation money finally assessed. Other rent receiver's interests and khas lands in possession of other persons will be acquired after revision of the records of rights and assessment of compensation.

2. Rates and Payment of Compensation.—The following scale of compensation is provided for the acquisition of rent receiving interests,

Amount of net income.	Rate of compensation
Upto Rs. 500 ...	10 times the net income
Rs. 510 to Rs. 2,000	8 " " "
Rs. 2,001 to Rs. 5,000	7 " " "
Rs. 5,001 to Rs. 10,000	6 " " "
Rs. 10,001 to Rs. 25,000	5 " " "
Rs. 25,001 to Rs. 50,000	4 " " "
Rs. 50,001 to Rs. 1,00,000	3 " " "
Above Rs. 1,00,000 ...	2 " " "

The following scale will apply to excess khas lands of the various categories :—

Class of Lands.	Rate of Compensation.
(a) Agricultural and horticultural land ...	5 times the net annual profit.
(b) Huts and bazars ...	5 times the net annual profit.
(c) Cultivable waste :—	
(i) Lands bearing profit ...	5 times the net annual profit or 10 times the annual raiyati rent for an equal area of agricultural land in the neighbourhood which ever is greater.
(ii) Lands not bearing any profit ... Rs. 10 per acre.	
(d) Lands consisting of forests, jungles, marshy tracts and other cultivable lands other than roads, pathways, common burial or cremation grounds, rivers, khals and water courses which the public may use by common right or right of easement ...	5 times the net annual profit.
(e) Non-agricultural land ...	5 times the annual letting value of the land.
(f) Buildings ...	The actual cost of construction less depreciation,

Compensation may be paid either in cash or in bonds or partly in cash and partly in bonds. The bonds will be non-negotiable and payable in not more than 40 annual instalments and will carry interest at 3 per cent. per annum.

3. **Debts of the ont going Rent Receivers:**—All debts incurred by a rent receiver before 7th April, 1948, other than arears of land revenue, rents or cesses and other than debts due to Government or a Co-operative Society, will be scaled down in proportion to the reduction in the net income suffered by the rent receiver on account of each acquisition.

All arrears of rent due to out going rent-receivers will vest in and will be recoverable by Government but Government will pay to the outgoing rent-receivers to whom such arrears were due a sum equivatent to 5% of such arrears by way of compensation within a period not exceeding four years.

4. **Service Teoancies.**—Holders of service tenancies (*i.e.* those holding agricultural land free of rent in consideration of some service to be rendered) will acquire occupancy rights in such lands subject to the payment of a fair and equitable rent to their immediate landlords.

If any service tenant has his homestead within the homestead of his landlord, the court may, on the application of either party, order the removal of the tenants' homestead, provided that in cases where the tenant holds less than five bighas of cultivable lands with occupancy rights, the landlord will have to pay him compensation to cover the cost of the removal of his homestead including the cost of land required for the new homestead and other incidental expenses.

If a service tenant has been ejected after 7th April, 1948 from any agricultural land held by him in lieu of service otherwise than by a decree or order of a Civil Court or an order of the Collector or of any Revenue Officer empowered by the Collector. The Collector may, on the application of the tenant restore the land to him.

5. **Regulation of Rights of and Restrictiona on Tenants.**—All agricultural tenants (Ryots) will have permanent, heritable and transferable rights in their land and will be entitled to use their lands in aoy manner they like. Such a tenant will not be ejected from his holding except in execution of decree of a civil court passed on the ground that he has done any act in contravention of the provisions of the Act.

In cases of transfers of raiyat lands, co-sharer tenants holding contiguous lands will have the right of pre-emption.

After state acquisition, in making settlement of any cultivable land at the disposal of government preference will be given to a person who cultivates the land himself or by the member of his family and holds less than three acres of cultivable land.

After state acquisition, no one except a *bona fide* cultivator bolding less than 100 bighas of land for himself and his family in the aggregate will he permitted to purchase or otherwise acquire any additional land, and in no case the quantity of the additional land so acquired, added to the total quantity of the land already in the possession of his famly, will exceed 100 bighas.

After state acquisition, a tenant will not be allowed to sub let his land under any circumstances.

A non-cultivator may purchase or otherwise acquire land but only with the previous permission of the prescribed authority.

6. **Regulation of Rents.**—Before state acquisition all produce rents will be commuted to money rents at a rate not exceeding 1/10 the of the total value of the annual gross produce of the land and all high rents will be cut down to a fair and equitable level.

After state acquisition all lands to be held by tenants under Government will be subject to the payment of fair and equitable rents irrespective of whether such lands are held now free of rent or at a fixed rate of rent.

A table of maximum rent rates for different classes of agricultural lands in a locality will be prepared for regulating the enhancement and reduction of rents of ryots. The maximum rate of rent for any class of land will not exceed 1/10th of the value of gross produce or five-fourths of the existing rate of rents, whichever is less. The rent of a Ryot will not be enhanced beyond the maximum rate of rent fixed in the table of rent rates. Rent enhanced once will not be liable to exhancement within 30 years.

7. **Consolidation of Holdings.**—Any two or more ryots having lands in the same village or contiguous villages may apply to the Revenue Officer for consolidation of their holdings and submit along with such application a scheme for such consolidation. If not less than two-thirds of the ryot in a

village or a block of contiguous villages holding not less than three-fourths of the total cultivable area in such village or block of villages, make an application for consolidation of their holdings, such application shall be regarded to be an application on behalf of all the ryots of such village or block of villages.

When a scheme for consolidation of holdings is submitted with such application and such scheme has been agreed to by all the ryot affected by it, the Revenue officer may examine the scheme and confirm it with such modifications as he considers fair and equitable. When no such scheme has been submitted by the applicants, or the scheme submitted by them has not been agreed to by all the ryots affected by it, the Revenue Officer shall prepare a schedule for consolidation himself in accordance with the provisions of the law and of the rules made by the Provincial Government.

The Revenue Officer may appoint an Advisory Committee to assist him in the preparation of the scheme for consolidation of holdings and such scheme shall be drawn up having due regard to any proposal which has the largest measure of agreement among the affected parts. In making the redistribution of land for the purpose of consolidation the Revenue Officer shall see that the total area of a holding or the profit derived there from is affected as little as possible.

If the redistribution of lands results in the allotment to any ryot of any parcel of land of market value lower than the market value of his original parcel of land, the Revenue Officer shall provide for the payment of Compensation to such ryot by the ryot or ryots who, in the opinion of the Revenue Officer, will be benefitted by the allotment of the more valuable land of the first named ryot.

CHAPTER XIII

OUR INDUSTRIAL HERITAGE

1. **Introduction.** We, in a previous chapter, suggested reorganising our agriculture with a view to increasing its productivity, and the econcmic well-being of the cultivators. Not only such reorganisation does not mean neglect of industry, it will in fact involve a simultaneous programme of industrial development. This for several reasons: In the first place, increased agricultural output especially of raw materials will have to be absorbed not only through increased exports but also through its processing and manufacture into finished goods by the help of home industry. These products can partly be consumed at home and partly exported to foreign countries with greater advantage. Secondly, more efficient methods of land utilization and exploitation will set free a large mass of surplus man-power which must be given alternative sources of employment in the interest of social and economic advancement of our people. This will involve setting up of small and large-scale industries according to our circumstances resources and needs. Thirdly, the growing mechanisation of agriculture will create expanding demand for improved tools, machinery, technicians etc., which as time goes on should be supplied from within the country at any rate as far as possible. Fourthly, as due to greater productivity and higher real wages the standard of living of the mass of the people rises it will create demand for industrial products of various kinds on the one hand and for a variety of new avenues of employment for the new generations on the other. Both these needs can be supplied by our growing and expanding industries. Apart from all this no amount of agricultural development can enable us to dispense with the need for creating means of modern defence through industrialization.

2. **Industry Under British Rule.**—Modern Industry in the Indo-Pak sub-continent is of quite recent growth. Even now taking the whole of this sub-continent an insignificant percentage of the population lives upon large-scale industry. According to the census of 1941 only 1·5 per cent of the population in what was then British India was engaged in organised industry of modern type. About 9 per cent. depended upon small-scale cottage industry; the figure for Pakistan is still smaller as we shall see.

Before the impact of the British rule and the Industrial Revolution, India was one of the leading industrial countries of the world according to comtemporary standards. Her textiles and other artistic products were the wonder of the civilised

world. The process of decay of the Indian handicrafts started about the beginning of the 19th century and had brought ruin on millions by the last quarter of the Century. Among the sufferers the Bengalis particularly of what is now East Pakistan were especially hard hit, because of their comparatively greater dependence on industries which were more exposed to the impact of the new forces of foreign competition, changing tastes and the changing balance of political power. The Punjab being comparatively farther removed from the new commercial centres was able to keep alive her handicrafts to a larger degree. Sind, until recently part of Bombay, was mostly a desert before the Barrage era, and the Frontier Province in a state of political insecurity.

The new industrial phase began about the middle of the 19th century when factory industries were established roundabout Bombay, Madras and Calcutta, the great commercial centres of the British era. Concentration of industry in the more conveniently situated Calcutta starved the rest of the Bengal of modern industrial development the full significance of which was realised only after the establishment of Pakistan. All that the nationalistic and patriotic sentiment, the World War I, the inter-war policies of industrial protection and the World War II achieved in the way of industrialisation benefitted certain areas possessing initial advantages all of which now are a part of the Indian Republic. We shall come to these initial advantages in a later section. The fact remains, however, that on the eve of partition Pakistan found herself with a very meagre share of factory industries developed during the British rule.

3. **Industrial Share of Pakistan** :—The main industries existing in India at the time of partition were cotton, jute, sugar, iron and steel, cement, paper and glass. Below are given the relative shares of Pakistan and the Indian Republic with regard to these industries.—

Industry.		Indian Republic		Pakistan.	
		No. of factories	Average daily employment	No of factories	Average daily employment
Cotton	...	435	6,35,000	16	20,000
Jute	..	91	2,89,000	nil	nil
Sugar	..	151	82,200	9	3,800
Iron and Steel	...	35	58,450	nil	nil
Cement	...	13	8,600	5	1,900
Paper	...	21	16,6,00	nil	nil
Glass	...	141	20,900	4	700
Total	...	887	11,06,750	34	29,400

Thus of the total of 921 factories in these six large idustries only 34 or 3·6% were located in Pakistan while the share of Pakistan in the total employment was only 2.6%.

Taking all the industrial establishments, however, the shares of Pakistan was larger though even then far lower than in proportion to her population :

Industrial Establishments and Employment in 1943

	Ind. establishments. Number.	shares.	Employment. Number. 1,000	% shares.	% population (1941)
Indian Republic	11,391	89.9	264,2	92.4	79.5
Pakistan ...	1,213	9.6	2,50	7.3	19.5
Kashmir ...	71	0.5	10	0.3	1.0
Total	12,675	100 0	29,02	100.0	100.0

Thus while Pakistan contained about 20% of the total population of the whole sub-continent its share of industrial establishment was less than 10% and of industrial employment just over 7% of the total. Indian Republic on the other hand with about 80% of the total population had over 92% of the industrial establishment.

4. **Classification of Industries**.—A study of the distribution of individual groups of industries reveals further industrial backwardness of Pakistan. Leaving aside the State of Kashmir (still under dispute) the distribution of main groups of industries between Indian Republic and Pakistan was as follows according to 1943 figures[1]:

Groups of industries.	Indian Republic: No. of persons employed (in 000)	Indian Republic: % of (1) to the total No. employed in the group of industries	Pakistan: No. of persons employed (in 000)	Pakistan: % of (3) to the total No employed in that group of industries.	% of the total employed in Kashmir
	(1)	(2)	(3)	(4)	(5)
Taxtiles ...	11,49	96.1	32	2.7	0.6
Engineering ...	3,83	89.1	46	10.7	0.2
Minerals and Metals ...	92	92.2	8	7.8	0.1
Food, drink and Tobacco ...	3,27	93.1	24	6.9	0.1
Chemicals ...	94	95.8	4	4.0	0.1
Paper & Printing	64	93.6	4	5.9	0.3
Wood, Glass, Stone	1,17	93.2	8	6.7	0.1
Hides & Skins ...	31	92.0	13	8.8	0.1
Gins & Presses ...	1,48	77.4	47	24.7	...
Miscellaneous ...	1,90	90.2	21	9.5	0.2
Total ...	25,93	94.4	20.6	7.3	0.3

1. Source : "Industrial Establishments in India," 1943.

Note the exceptionally low shares of employment in Pakistan in the textiles and the chemical groups With the exception of gins and presses, engineering, hides and skins and perhaps minerals and metals the share in other groups is below the average shares Gins and presses is the only group in which the share is adequate in proportion to population. But in proportion to cotton and jute produced even these are not adequate Moreover, gins and presses involve very simple processes and are no index of industrial develpment of a country. So far as the important industries of modern kind are concerned Pakistan stands nowhere in comparison even with industrially backward Indian Republic

5 Relative Importance of Industrial Groups — The following table shows the relative importance of various groups of industries in the economy of each of the two Dominions

Industrial group	Percentage employed in each group of the total industrial employment in each Dominion	
	Indian Republic	Pakistan
Textiles ...	43 0	16 0
Engineering .	13 0	22 8
Mineral and Metals	2 6	4 2
Food drink and Tobacco	11 2	12 1
Chemicals	2 8	2 4
Paper and Printing	1 7	2 4
Wood Glass and Stone	1 8	4 4
Hides and Skins	10 6	1 9
Gins and Presses	4 6	23 3
Miscellaneous	6 7	10 5
Total	100 0	100 0
Total employment ..	26 42 000	2,50 000

Note the relatively high importance of the textile group in the Indian Republic In Pakistan this group comes after gins and presses and engineering It should be remembered, however, that engineering establishments in Pakistan consist mostly of railway workshops and other minor repairing units In the Indian Republic these include coach-building, dockyards, electrical engineering works and ship-building (See Appendix to this chapter).

6 Industries entirely absent in Pakistan —An Appendix to this chapter gives a full list of all the various kinds of factory industries existing in the Indo-Pak sub continent in 1943 They are 86 in all, classified into industrial groups It will be noted that as many as 39 industries of this list are entirely absent in the areas now called Pakistan. Among these are such important

industries as jute manufacture, ship-building, iron and steel works, copper smelting, lead smelting, mica smelting, dyeing and bleaching, paper and paper pulp, soap and metal stamping, canning food, tobacco works, etc.

In view of the raw materials available many of these industries could have been established in Pakistan such as jute mills, dyeing and bleaching. paper and paper pulp, soap, canning food, tobacco works etc.

Classification of these industries according to employment further shows that not a single industry employed more than 50,000 workers in Pakistan. In the Indian Republic there were nine such industries of which five employed more than a lakh persons. Most of the industries in Pakistan employed less than 1000 workers.

7. Reason for Industrial Backwardness of Pakistan: Now we come to the question: Why have the areas now constituting Pakistan remained industrially undeveloped? In his address to the Industries Conference, called by the Pakistan Government in November 1947, Mr. I. Chundrigar, the then Minister for Industries, attributed this backwardness to neglect and prejudice on the part of the pre-partition Government of India. He gave some instances to prove that the late Government of India did not visualise the setting up of the industries in the Punjab, Sind and East Bengal in spite of the fact that these regions produced large quantities of raw materials like cotton, jute, tobacco, sugarcane, hides and skins. Even the panels appointed by them for the study of development of principal industries did not have adequate representation from what are now Pakistan areas. This may be true of the future plans of industrialisation in the pre-partition India, but does not explain the fact of backwardness in the past. Modern industrial development in India started from the fifties of the 19th century. Why did not the industries spring up in the Muslim majority areas during this period of about a hundred year?

The explanation lies not so much in the prejudice on anybody's part but in certain geographical and historical factors. The early leadership in modern business and industry in India came either from Europeans (especially Englishmen and Scotchmen) or from the Parsees. Many retired officials and army men of the East India Company settled in India and engaged themselves in business. They had business experience, capital and protection of their own Government and India offered scope for good returns. The natives of the country were conservative,

illiterate and lacked enterprise and expetience of modern methods. The Parsees being a small, ~~Itan~~ intelligent community who had originally come from Persia Iran were free from Indian conservative ttaditions and soon took to European methods of business.

The European business centres from the earliest times had been located in the Western and Southern coasts of India—Bombay, Calcutta and Madras. This was natural for a seafaring people who came to this country as traders These places thus became the most important business, and later, industrial centres. Bombay had the added advantage of a humid climate and access to cotton areas to fit her for an excellent centre for cotton textile industry. Calcutta became the centre of jute trade and industty on account of its being the most convenient pott and business centre commanding the jute areas of Bengal The Parsees had settled on the western coast of India and their activities were mainly confined to the Bombay Ptesidency. Latet they extended their enterprises to othet areas where factors fot industrial location were most favoutable Fot example, the great iron and steel industry of Bihar is the ftuit of Patsee enterptise. It had to be located in Bihar because of the neighbourhood of coal and iton mines. Sugar industry more tecently appeared in U.P. because of the dominant position of that atea regarding the production of sugarcane.

In the later phases of development some Hindu castes—like the Marwaris—became prominent as industrialists. These were originally bankers and money-lenders, and thus had plenty of capital.

The Muslims lagged behind in all this race, especially the Muslims of the areas now constituted as Pakistan. Firstly, these areas were in the backwaters of the stream of trade and commerce of recent times. European business community was not attracted to such areas and neither were the Parsees. The Hindus were mostly bania money-leaders who thought it a better proposition to get easy returns from lending money to the illiterate and comparatively better off peasantry than to take to industrial pursuits in competition with the more industrially favoured areas of the sub-continent.

As regards the Muslims themselves they were mostly small peasants and some landlords. The former had no capital and the latter no incentive for engaging in industries. The community as a whole was poor. With the passing away of the Moghul Power they had lost opportunities of service in the higher rungs of

administration. The British, the successors of the Moghuls, looked upon the Muslims with suspicion and were not anxious to afford them encouragement for national advancement. Many had lost their old estates and were reduced to poverty as the result of the post-Mutiny policy of the British. Moreover, the prejudice against taking of interest had also kept them out of the arena of business and industrial enterprise, with extremely few exceptions. Thus they lacked capital, enterprise and business experience. Their factories if any were managed with much less efficiency. As early as 1888 a European factory inspector wrote: "The factories owned by Mussalmans are seldom, if ever, insured, and one which has been twenty years has never had a coat of paint applied to any of the woodworks."[1]

Thus the Muslim areas were bound to lag behind in the industrial race under conditions of *laissez faire.* They could only have developed under a deliberate state policy of regional planning which is only a recent idea.

8. **Cottage Industries of Pakistan.**—So far we have been talking of the factory industries. Pakistan areas, however, did not lack some important cottage industries which had managed to survive the impact of the modern-forces. These had survived partly because of the extremely specialised nature of the products and partly because of certain other advantages enjoyed by them in the supply of raw materials, inherited local skill etc. Apart from the various village handicrafts supplying the day to day needs of the village population like handloom cloth, pottery, oil, implements and simple village furniture, there were and still are many crafts which produced goods of high artistic quality with more than local reputation. The province of Punjab for instance produced carpets at Multan, sports goods at Sialkote, furniture at Gujrat, Iron safes and steel trunks at Gujranwala and Sialkote, *Khes* at Jhang and Multan, surgical instruments and E. P. N. S. wares at Sialkote, Wazirabad, Bhera and Lahore, glazed pottery at Multan and Gujrat silk fabrics at Multan etc.

In the N.W.F.P., Dera Ismail Khan, Kohat and Peshawar produced fine silk fabrics, Hazara district produced beautiful striped and check material. Other famous products of this province were Afridi momjama (wax cloth) of Peshawar, ornamented turbans with coloured silk of Kohat, earthen vessels decorated with water colours of Peshawar. Other articles produced in various parts of the province were swords and hunting

1. Factory Inspector Jones quoted by Buchanan: Development of Capitalist Enterprise in India, p. 147.

knives. copper ware especially trays, ewers with basin wine bowls, leather works of saddle, shoes and bags.

Baluchistan produced embroidery of high quality, saddles and hand bags of leather richly ornamented with shells etc.

The main cottage industries of East Bengal were coir spinning, wick work, mat making, silkworm rearing, (Sylhet), silk weaving, production of counch shell bangles and mother of pearl buttons, muslin and Jamdari (Dacca). silver filigree work (Dacca) ivory carving (Rangpur) leather works etc.

9 **Effect of Partition on Cottage Industries**—Even these cottage industries were hit hard in consequence of partition. In most cases Muslims were only the skilled workers The industries were financed by Non-Muslim bankers and banks. In fact most of them were in the domestic stage of development. The Non-Muslim middleman supplied them with raw material, finance and was in contact with markets inside the country and abroad. This was specially the case with industries in the Punjab

For instance, take the case of industries located at Sialkote the world-famed centre of sports goods industty. Apart from this major industay of the town there were some other cottage industries located here Among these were surgical instruments industry, electroplating nickel and silver (E P N S), rubber goods industry, durry making, musical instruments manufacture etc. All these industries are in a depressed condition due to partition and its aftermath The result is widespread unemployment among the workers One of the basic factors responsible for this state of affairs is the migration of the Non-Muslims In pre-partition days, although the entire labour force was Muslims, among the employers, financiers and traders the vast majority were Hindus and Sikhs With the migration of these people the whole industrial structure of the town was paralysed Leading firms closed down , the workers were not in a position to work independently, articles produced in workers' homes could not have access to markets Not only because much of the market and most of the exporting centres were in India, but chiefly because the traders who were in touch with Indian and foreign markets left the country Further their migration created big gaps in the field of finance both as regards organised banks and individual money-lending Again, the workers found them selves in difficulties with regards to the supply of raw materials which where supplied through the agency of the same middlemen. Where the raw materials came from the Indian portions

of the sub-continent this difficulty was accentuated especially after the no-devalution decision of Pakistan Government led to the stoppage of all Indo-Pak trade.

These remarks, either in part or as a whole, are true of other industries located in the Punjab towns and even in other parts of Pakistan. The small tools and cutlery industry of Wazirabad and Nizamabad, the iron safe industry of Gujranwala, the engineering factories of Lahore etc., all have had to suffer from the partition and ths no-devaluation decision of the Government.

This dislocation of industry, however, is likely to be of a temporary nature. Already the Muslims are entering the field of marketing and finance. Alternative markets and sources of raw materials are being discovered.

Cottage industries will always remain an important sector of our economy. They will, however, have to adapt themselves to modern methods of production, finance and marketing. In this process of rationalisation the state will have to play a prominent part. The ideal solution, however, will be a spontaneous application by the workers themselves of the co-operative principle to the supply of raw materials, finance and marketing, if not to the actual process of production. So far the workers have not been attracted towards this principle. This has been partly due to their own ignorance and lack of initiative but mainly to their discouraging experiences of the official co-operation, imposed on them from above. The whole approach to the co-operative principle in this country needs radical transformation.

The paucity of capital for industrial development emphasizes still more the fact that planning for large-scale industry should not blind us to the necessity of reorganizing our small-scale and cottage industries. Large-scale industry alone will not solve the problem of providing gainful employment to the vast masses of our country. In a country with enormous and under-employed labour forces and with meagre capital resources small-scale and cottage industries must play, for a long time to come, the predominant role. There is considerable scope for rationalisation of this kind of industry with particular reference to supply of raw materials, improved tools, technical training and advice, supply of samples and designs, standardization of products, improved marketing facilities and financial aid. The Pakistan Government has already taken some steps in this connection as we shall see.

10. **Difficulties of Pakistan Government.**—It will be clear from the above account that the industrial heritage of Pakistan was very meagre indeed Factory industries were almost non existent and cottage industries were hard hit as a cons quence of partition and its aftermath. The Pakistan Government with all the will in the world for industrialising the country could not have produced immediate results even if the partition had been peacefully achieved The Government in fact was faced with difficulties the parallel of which is hardly to be found in the history of any other state especially at the time of its very birth

Pakistan was a newly created State with two of its major provinces badly mutilated Its administrative machinery had been badly shattered on account of the migration of non Muslim officers and other staff occupying key positions Its economic life had been dislocated if not paralysed for similar reasons i e, in trade, industry and finance it was the non-Muslims who controlled the strategic strings The divided provinces were further hard hit because of their reduced resources, disturbed and mutilated channels of communication, transport, irrigation system The last in the case of the Punjab

Added to these difficulties were those created by the flood of refugees which started pouring in simultaneously with the announcement of pattition and increased with ever-growing pressure This was no peaceful and planned migration of people or exchange of population through mutual understanding. It was a mass of terror stricken humanity,—men, women and children, aged and infirm,—hounded out of their ancestral homes, attacked on the way with deadly weapons, wounded and mutilated, many dying of hunger, sickness or wounds They had left behind them not only their all earthly possessions, but in many cases their dearest and nearest, dead or dishonoured They had to be received, consoled, fed, clothed, and given medical aid They had to be housed first in the refugee camps and then moved out into the interior of the country to be gainfully absorbed in its economy. This was a tremendous job which had to be performed at a short notice and within a limited period of time. Apart from the financial implications of this tremendous responsibility it meant preoccupation of the major portion of the administration with tasks which could hardly be called developmental.

Added to this arose the complications in Kashmir, Hyderabad and Junagarh, accompanied by the generally bullying attitude of the Indian Government. This psychologically

created a general sense of instability and insecurity and financially it involved disproportionate provision for defence services. And this at a time when the revenue resources of the Government had been seriously curtailed due to general dislocation of economic life and the bad faith of the Government of India in refusing to transfer to Pakistan her due share of defence materials and financial assets.

This was hardly the time to think of planning industry the need of which was fully realised by all concerned. But the Pakistan Government did think of it and with what results we shall see in the next two chapters.

11. Basic Difficulties of Industrial Development.—These were the difficulties created by the Partition. But there were others of a more basic nature. These included the lack of trained technical personnel, lack of banking and transport facilities, a general lack of industrial enterprise among the people and the absence of the habit of investment in long-term projects. Most of all Pakistan lacked some of the basic minerals like coal and iron. Hydro-electric resources were still untapped. These difficulties, however, did not deter the Government. The refugee problem has almost been solved especially in its more acuter aspects. The Central Budget has been a balanced Budget throughout. The provincial budgets have shown rapid financial recovery especially as regards the partitioned provinces. The gaps created by the partition in the banking structure have been successfully closed. The railways are again an earning department. Plans for industrial development have been chalked out.

Similar plans have been made for agricultural development. Some difficulties however, arose with regard to Indo-Pakistan trade after our no-devalution decision but Pakistan economy showed enough resistance to withstand this strain's as well.

APPENDIX TO CHAPTER XIII

Industrial Employment in the Indian Republic and Pakistan in 1943

Source : Industrial Establishments in India.

Figures in thousands

Industry	Indian Republic	Pakistan
I—TEXTILE		
1. Clothing ...	20.9	8.4
2. Cotton Mills ...	646.0	18.6
3. Hosiery ...	7.2	1.6
4. Jute ...	302.3	—
5. Silk ...	5.6	0.1
6. Woollen Carpets	0.1	—
7. Woollen Mills ...	12.5	2.7
8. Miscellaneous ...	19.8	0.1
Total ...	10,155	31.5
II—ENGINEERING		
9. Coach Building ..	18.5	2.2
10. Dockyards ...	12.9	0.4
11. Electrical Engineering ...	10.4	0.7
12. General Engineering ...	104.0	2.7
13. Electrical Generating ...	9.6	14.7
14. Kerosene Tinning	7.4	1.2
15. Metal Stamping .	9.8	—
16. Railway Workshops ...	118.9	21.8
17. Ship Building ...	35.1	—
18. Steel Trunks ...	2.5	—
19. Tramway Workshops ...	2.4	1.0
20. Miscellaneous ...	15.2	2.7
Total ...	346.7	47.1
III—MINERALS AND METALS		
21. Foundries ...	6.9	4.3
22. Iron and Steel	60.9	—
23. Copper Smelting	1.7	—
24. Lead Smelting ...	0.9	—
25. Mica ...	0.7	—
26. Petroleum Refineries ...	2.5	1.4
27. Miscellaneous ...	11.8	2.1
Total ...	85.4	7.8
IV—FOOD		
28. Bakeries etc. ...	3.5	0.7
29. Breweries ...	3.4	0.5
30. Coffee Works ...	5.0	—
31. Dairy Products ...	0.6	1.0
32. Flour Mills ...	4.9	2.0
33. Food Canning ...	0.4	—
34. Ice and Aerated Waters	2.0	0.2
35. Rice Mills ...	41.9	4.5
36. Sugar Mills ...	84.3	5.4
37. Tea Factories ..	64.0	7.4
38. Tobacco Works ...	29.9	—
39. Water Pumping Station ...	2.6	0.1
40. Miscellaneous ..	26.1	2.4
Total ...	268.6	24.2
V—CHEMICALS		
41. Chemicals ...	16.0	0.4
42. Bones and Manures	1.0	0.7
43. Dyeing and Bleaching ...	13.8	—
44. Gas Works ...	1.4	0.1
45. Indigo ...	0.2	—
46. Lac ...	2.1	—
47. Matches ...	9.4	0.4
48. Oil Mills ..	20.5	1.6

Industry	Indian Republic	Pakistan
49. Paints and Varnishes ...	2.8	0.2
50. Soaps ..	2.9	—
51. Turpentine ...	0.3	0.1
52. Miscellaneous ...	4.6	negligible
Total ...	76.9	3.5
PAPER & PRINTING		
53. Paper Mills and Pulp ...	18.3	—
54. Printing ...	37.7	3.6
55. Miscellaneous ...	2.6	0.2
Total ...	58.6	3.8
VII—WOOD, STONE, GLASS		
56. Bricks and Tiles	21.4	0.1
57. Carpentary ...	7.4	1.5
58. Cement and lime		
59. Glass ...	15.4	2.6
60. Stone Dressing	18.5	0.4
61. Saw Mills ...	5.0	—
62. Miscellaneous ...	9.6	0.9
Total ...	90.6	7.6
VIII—HIDES & SKINS		
63. Leather and Shoes	19.4	negligible
64. Tanneries ...	13.6	1.6
65. Miscellaneous ...	0.9	0.3
Total ...	33.9	1.9

Industry	Indian Republic	Pakistan
IX—GINNING AND PRESSING		
66. Cotton Gins ...	97.3	29.7
67. Jute Presses ...	9.5	7.7
68. Miscellaneous ...	7.2	0.3
Total ...	1,14.0	37.7
X—MISCELLANEOUS		
69 Brushes ...	1.6	—
70. Canvas Proofing ...	1.1	—
71. Forage Presses ...	0.2	negligible
72. Grain Crushing ...	0.2	0.8
73. Gramophone Records ...	1.1	—
74. Jewellery Workshops ...	0.9	—
75. Laundries ...	0.9	—
76. Mints ...	6.2	0.9
77. Ordinance Factories	1,15.7	15.8
78. Bnds and Combs	0.1	—
79. Repairs etc. ...	0.1	0.1
80. Rope Works ...	3.4	—
81. Rubber ...	8.4	0.8
82. Sapper & Mines Workshops ...	3.0	—
83. Stone Works ...	0.9	—
84. Telegraph Works	3.7	—
85. Industrial Schools	1.1	—
86. Miscellaneous ...	25.9	3.0
Total ...	174 1	18.7
Grand Total ...	22,65 3	2,82.7

CHAPTER XIV

INDUSTRIAL PLANS AND POLICIES

1. Introduction —In spite of the difficulties and handicaps facing the country, in the immediate post partition period, the Pakistan Government realising the importance of industrial development took steps in this connection soon after partition. An Industries Conference was convened at Karachi from the 13th to the 17th of December, 1947, at which all provinces and states were represented, in order to deliberate upon the ways and means of developing Pakistan's industries The conference set up various committees to advise the Government for the rapid industrialisation of the country These committees formulated their proposals in about three months' time In March 1948 these were forwarded to the Povincial and State Governments and the various ministries of the Central Government. It was on the basis of conclusions thus reached that the Pakistan Government announced their Industrial policy in April, 1948 and later formulated their plans of development

2. Objectives of Industrial Policy —In the statement of their policy the Government drew attention to the essentially agricultural character of the country in which "technical and technological institutions, research and analytical laboratories and credit and service agencies, which one normally associates with an advanced country, have yet to be organised "—The contrast between the country's vast natural resources and its extreme industrial backwardness was taken note of The aims and objectives of Government policy were defined as "an improvement in the standard of living of the people brought about by harnessing, to the maximum extent possible, the forces and treasures of nature in the service of the people, by providing gainful and legitimate employment and by assuring freedom from want, equality of opportunity, dignity of labour and a more equitable distribution of wealth " Free play was to be given to private enterprise and individual initiative subject to certain conditions mentions later. In the light of experience of other countries evils which had attended industrial growth elsewhere were to be avoided

Due to the agricultural character of the economy of Pakistan initial emphasis was to rest upon the reconstruction

and development of agriculture and of industries based upon or connected with it and on the promotion of medium, small and cottage industries. This did not imply neglecting the large-scale industry which was essential to the security of the state and its general prosperity. This also had to receive utmost attention and encouragement. It was proposed in the first place to manufacture within the country indigenous raw materials particularly jute, cotton, hides and skins etc. for which there is an assured market whether at home or abroad. At the same time to meet requirements of the home market efforts were to be made to develop consumer goods industries. Further no opportunity was to be lost to develop any heavy industry "which is considered essential for the speedy achievement of a strong and balanced economy."

The need for planning was recognised to ensure the industrial development of the country on sound lines. In preparing such a plan, due account was to be taken of the resources and requirements of the country as a whole. Planning was to be in a large measure the responsibility of the centre if these conditions were to be best satisfied.

3. The Role of the Centre.—To give the centre greater initiative in the matters of planning, industrial development which was a provincial subject under the Government of India Act of 1935, was to be put on the concurrent Legislative list. This step was justified thus: " Industrial development is so bound up with fiscal policy that these must be closely integrated. Then again the location of industry is in these days determined by requirements of balanced regional development and strategic considerations. The centre is in a better position to judge of these matters than the provinces. Central control is also necessary to facilitate procurement and ensure equitable allocation among provinces and states of machinery and raw materials in short supply."

A similar consideration applied to mines and oil-fields. It was proposed to take over power to regulate mines and oil-fields and their development.

The centre however, was not to assume exculsive jurisdiction in the matter of industrial planning. It was proposed, as recommended by the Industries Conference, to

limit central planning to 27 specified[1] industries. "Provinces would be closely associated with the centre in the task of preparing the plans, and except for industries owned or operated by the Central Government the implementation of plans would largely be their responsibility. Central planning would extend to the allocation of industrial units to provinces, the allocation of such units within the province being done in consultation with them. The centre would assist in the procurement of capital, machinery and plant from abroad and in the procurement and distribution of essential raw materials which are in short supply The centre will gradually build up machinery to ensure maintenance of proper production standards" The centre was to exercise a general supervision in order to ensure progress according to plan. It was to co-opperate with the provinces in the field of technical education and training and to assume its responsibility in the matter of scientific and industrial research and was to act as a clearing house of information regarding industrial experiments and achievements in other countries

4 **Relation of State to Industry**—As regards the question of relation of state to industry, especially with respect to the ownership and control, it was stated that there was a general agreement that monopolies and public untilities were peculiarly suitable for nationalisation. Mention was made of industries like communication servicesand transport services like ailways, which are already owned and managed by the state. Regarding Road, River and Air, policy had already been announced regarding Civil Aviation, road transport was being gradually nationalised by provincial governments and river services were to be left to private enterprise for the time being. With

1. In an Appendix attached to the statement these industries were listed as follows.

(1) Arms and Munitions of war. (2) Cement (3) Coal, (4) Electrical Equipment—fans, lamps, motors generators transmitters and switch gears, (5) *Generation of electric power—hydel and thermal*, (6) *glass and ceramics*; (7) Heavy chemicals Industry—sulphuric acid, caustic soda, soda ash, fertilizers; (8) Heavy engineering industries for construction of aircraft, ships, locomotives, wagons, automobiles, agricultural machinery: (9) High temperature and high pressure reaction and carbonisation plants (10) Iron and steels, (11) *Machine tools*; (12) Manufacture of telephones, telegraph and wireless apparatus (13) Marine fisheries; (14) Mineral Industries; (15) Non-ferrous metals and alloys industry, (16) Paper and pulp, (17) Petroleum and mineral oils; (18) Power and industrial alcohol, (19) Pharmaceuticals and drugs; (20) Preserved and prepared foods, (21) Rubber manufacture, (22) Scientific instruments, (23) Sugar (24) Salt; (25) Tanning and leather, (26) Textile—Cotton, Woollen, Jute, Silk and rayon (27) Tpbacco

regard to the rest (*i*) Arms and Munitions of war, (*ii*) Generation of hydel power and (*iii*) Manufacture of railway wagons, telephones, telegraphs and wireless were to be owned and operated by the state. In addition, the Government reserved the right to take over or participate in any other industry " vital to the security or economic well-being of the state."

5. **State Assistance to Industry.**—As regards state assistance on the positive side, Government would give all reasonable help for the establishment and development of private industry. Apart from maintaining peace and security the Government would create conditions in which industry and trade would develop and prosper. Mineral resources of the country would be surveyed and energetically exploitted. Development of power resources would be accorded highest priority. Ports would be improved and measures taken to improve agriculture. Assistance would continue to be given for procurement of capital goods, machinery and essential raw materials from foreign countries for development of scientific and industrial research and for obtaining facilities for technical education and training abroad. An industrial Finance Corportation would be established. Attention was drawn to the assistance already being given by various provinces and states to industry in the provision of factory sites, electric power and other facilities. Regarding Tariff Protection it was stated : " The Government will always be prepared to give favourable consideration to claims for a reasonable measure of protection for industries established in Pakistan." Such claims would be subjected to examination by a Tariff Board to be appointed as and when required.

Despite its stringent budgetary position the Government recognized " that taxation policy should as far as possible, mitigate the hazards to which new industrial projects are likely to be subject for some time to come and that reasonable opportunities and level of profit should be allowed to those who take part in the industrial development of the country. Attention was drawn to the measures of taxation relief given to industry in the Budget for 1948-49[1].

6. **Policy Regarding Foreign Capital.**—Announcement was then made regarding the important matter ef foreign capital: 'Pakistan would welcome foreign capital seeking investment from a purely industrial and economic objective and not claiming any special privileges. Participation of nationals of Pakistan must, however, be ensured, both in the administrative

(1) These we have taken note of elsewhere in this chapter. See section,

and technical services manning the industry and training facilities should be provided to Pakistan nationals by concerns that wish to establish themselves in Pakistan Where trading facilities rather than establishment of an industry are desired by foreign firms, subsidiaries should be registered in Pakistan" Nationals of Pakistan were ordinarily to be given the option to subscribe at least 51% of all classes of share capital and debentures in the specified[1] industries, regarding the other industries, normally the Pakistan nationals were to be given opportunity to subscribe 30% of share capital and debentures Foreign investor,s however, could subscribe the balance with Goverenment approval to the extent that indigenous capital was not forthcoming Apart from these conditions imposed in the interest of safety and wellbeing of the country industries financed and controlled by foreign nationals were assured of fair and just treatment Further, Government was to allow facilities for the remittance of a reasonable proportion of profits to the country from which capital was drawn

7 **Creation of Palnning Machinery and Indstitutions** — So far the policy To translate this policy into concrete measures the Government created certain bodies, institutions and departments On February 21, 1948 a Development Board and a Planning Advisory Board was created The function of the Development Board is to approve and co-ordinate Development plans, Central and Provincial, to make recommendations regarding priorities among such plans and to keep watch on the progress of development schemes with the object of removing bottlenecks and difficulties in the way of uniform progress in all fields The Development Board is composed of high officials of the Government In order to associate non officials from among the industrialists, bankers, business men, merchants, and other interests, in the matter of planning in an advisory capacity the Government also set up an Advisory Board This body consists of officials, and non-officials Its function is " to advise Government generally on matters relating to planning and development, to review the progress made in the implemenatation of the plans, and to educate the public in regard to the necessity for various development schemes undertaken by the country"

The Development Board and the Planning Advisory Board were, in the first instance, a part of the Cabinet Secretariat of

1 These industries are, cement cotton spinning and weaving mills fish canning and fish oils, generation of electric power other than hydro-electric glass and ceramicals, cheavy chemicals and dye stuffs minerals prepared foods, power alcohol shipbuilding, sugar tanning and leather

the Government of Pakistan. In March, 1948 it was decided to establish a separate ministry—the Ministry of Economic Affairs—with the object of co-ordinating planning and the day-to-day activities of the other ministries, especially in the economic field. With the establishment of this Ministry the Development Board and the Planning Advisory Board became its parts.

Lately some other bodies have been created which have a bearing on Planning and Development. An Economic Resources and Requirements Committee has been constituted, which has already made a general survey of the short-term and long-term requirements of Pakistan in the field of industry, communications, agriculture, hydro-electric power, mines and minerals. An Advisory Committee on Technical Education has been set up (*a*) *to keep under review requirements of technical* personnel for major industries, (*b*) to advise on ways and means of providing technical training to such personnel as may be required by different industries, (*c*) to advise Government on schemes for training technicians abroad and (*d*) to advise Government on such matters regarding training which may be referred to it from time to time. The Government in pursuance of its declared industrial policy has assumed responsibility for the development of 27 major industries under what is called the Development of Industries Federal Control Act of 1949. The Department of Supply and Development is charged with the task of developing these industries. For seven major industries Advisory Committees have already been set up. These Committees submit their reports to a Council of Industries which has been created recently. The Council of Industries is a non-official Advisory Body to which official status has been given in the Rules framed under the Industrial Development (Federal Control) Act, 1949. Further under the Regulation of Mines and Oil-fields and Mineral Development Act of 1948 a new department *i.e.* the Department of Mineral Concessions, has been established which grants oils and mineral concessions. This function hitherto performed by the Provincial Governments has been centralised under the new law.

For financial assistance to industries an Industrial Finance Corporation has been set up with the object of providing medium and long-term credit to industrial concerns. More recently an Industrial Development Corporation has been created under the Industrial Development Corporation Act, 1950 for running the state-owned industries as they are established.

8. Pakistan Government Embarks on Planning.—In the meantime steps were taken in the direction of planning. In its first meeting the Development Board took stock of the schemes which had been prepared by the Provinces under the directions of the pre-partition Government of India. It was realised that under the new circumstances these schemes needed reconsideration and modification. This was so in view of the fact that the two important provinces of Pakistan, namely Punjab and Bengal, had been partitioned. Further in view of the changed circumstances it was necessary that greater emphasis should be laid upon certain subjects than was done in the past. Greater priority, for instance, was to be given the developc ment of electric power and port facilities etc. The Development Board, therefore, asked the Provincial Governments and Central Ministries to examine their old schemes especially in relation to the following subjects:—

(*a*) Production of hydro-electricity and other forms of power.

(*b*) Maintenance and expansion of communications including ports.

(*c*) Exploitation of mineral wealth.

(*d*) Reclamation of land especially for the refugees pouring in from India.

(*e*) Establishment of basic and key industries.

(*f*) Training of technical personnel required for industrial development.

(*g*) Prevention of disease and improvement of health.

(*h*) Large-scale development of fisheries and fish industry.

In response to this invitation a large number of schemes were sent by the Governments concerned to the Secretariat of the Board. By the beginning of 1950, according to the Secretary of the Board, the Board had considered 202 schemes of which it had approved as many as 105. They were estimated to cost Rs 70 crores over a period of five years. The estimated expenditure over them during the year 1949-50 alone was Rs. 20 crores. This was to be apart from those schemes which, in the case of provinces, the Provincial Governments could meet out of their own resources, and in the case of the Centre, were regarded a part of the normal departmental activity.

The unit-wise estimates of the cost of the development schemes approved by the Board are tabulated below :—

In rupees

Units.		Total Cost.	Cost during 1948-49	Cost during 1949-50
Centre	...	4,58,97,144	1,51,93,613	1,66,29,575
Baluchistan	...	1,03,16,471	47,46,131	25,12,456
East Bengal	...	23,77,18,894	43,89,777	6,72,53,346
Punjab	...	34,43,59,869	5,23,27,260	7,60,85,011
Sind	...	4,23,83,476	2,30,09,476	1,93,74,000
N.W F.P.	...	3,56,79,313	68,06,600	90,79,389
Total		70,63,55,171	10,64,67,875	19,09,35,777

These schemes cover a wide field of subjects like irrigation agriculture, industry, communications, generation of power, health etc. In the table given below their cost is classified according to subjects :

Heads.		Total Costs Rs. Lakhs.	Cost during 1948-49 Rs. Lakhs.	Cost during 1949-50 Rs. Lakhs.
Agriculture	...	15,98	20	3,67
Broadcasting & Publicity	...	50	32	18
Communication	...	10,08	3,67	6,31
Electricity	...	20,53	3,89	2,86
Health	...	2,83	60	1,08
Industry	...	2,60	1 49	81
Irrigation	...	17,73	43	405
Veterinary	...	28	4	12
Commerce	...	10	...	2
Total	...	70,63	10,64	19,09

All these schemes were estimated in five years' time to increase (*a*) production of foodgrains by 7 lakhs tons (*b*) irrigated area by 28 lakh acres (c) production of electricity by 1,76,000 Kw etc In addition to this the construction of the Lower Sind Barrage was expected to increase irrigated area by 28 lakh acres and production of foodgrains by 400,000 tons per annum.

9. **Financing Development Plans**—As regards the procedure of financing the schemes approved by the Development Board, it was described by the Secretary of the Board thus. "In such cases where the schemes are submitted by the provincial Governments and are approved by the Development Board, the Centeral Government advances loans to the Provincial Governments for financing these schemes, and the Provincial Governments are made responsible for carrying out these schemes. In such cases where the schemes are submitted by the Ministries of the Central Government and are apptoved by the Development Board their financing is done out of the central exchequer and the schemes are run by one of the Ministries of the Central Government. In both cases the Development Board may and does recommend that the loan or the grant may be given subject to certain conditions which in the opinion of the Board would be necessary for the proper implementation of the scheme[1]."

During the two years ending March *1950*, the Central Government granted loans to the Provincial Governments to the total amount of Rs 22.13 crores details of which are given below.

	Loans granted in	
Province	1948-49	1949-50
Punjab	Rs 5 crores	Rs 5 crores
E. Bengal	Rs 4 crores	Rs 4 21 crores
N.W F P	Rs 0 52 crores	Rs 0 90 croses
Sind	Rs 2 50 crores	Nil
Total	Rs 12 02 crores	Rs 10 11 crores

Of the money sanctioned for 1948-49 only Rs. 5.52 crores were availed of *i e* Punjab Rs 5 croses and N.W.F.P. Rs. 52 crores presumably on acccount of the difficulties of importing the necessary materials for development. The details regarding the actual drawing during 1949-50 are not yet available. In the

(1) Progress of Development Schemes, Karachi Commerce Annual Review 1950. p 13

Budget for 1950-51 a further sum of Rs. 8 crores has been provided for giving development loans to the Provinces[1].

In addition to the loans the Central Government also makes grants to the provinces. In the budget for 1949-50 the Central Government made an outright grant of Rs. 1 crores to the Provincial Governments for agricultural development. This was allotted as under:

Punjab : Rs. 25 lakhs ; E. Bengal Rs. 32 lakhs; N. W. F. P. : Rs. 15 lakhs; Sind : Rs 25 lakhs leaving a balance of Rs. 3 lakhs.

The schemes on which this amount is being spent include distribution of fertilizers, supply of improved seed, minor irrigation facilities, development of fisheries and reclamation of land. A further provision of Rs. 50 lakhs was made in the budget for 1950-51 for similar grants to Provincial Governments. The unspent balance of the last year's grants was set apart in a special fund to be made available to the provinces for expenditure during the year 1950-51.

The Central Government derives the funds for such expenditure by floating internal loans[2]. The total amount subscribed to Government loans floated by the Pakistan Government since the partition comes to Rs. 75.91 crores[3]. This does not include the *ad hcc* issues of February 1950 the subscription to which had already reached Rs. 10 crores when the budget for 1950-51 was presented.

10. **Private Investment in Industry.** From the promptness with which people subscribed to Government loans it would appear that there is no paucity of capital seeking investment in Pakistan. Why is this capital not coming forth for industrial development? Considerable controversy has been going on in this connection. The Government spokesmen blame the business community for timidity and shyness in providing capital for industries. It is alleged that the capitalists prefer quick returns from trade to more delayed and probably lower profits from industry. The spokesmen of the business community on the other hand blame the Government for not giving proper facilities for investment, and for not creating environments which should encourage long-term investments, for the red-tapism of the bureaucracy etc. Both sides are only partly in the right. The private capitalist

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(1) Finance Minister's Budget Speech (1950-51), p. 25.
(2) For details see chapter on public Finance.
(3) Central Budget (1950-51), p. 22.

cannot be blamed if, he prefers a quick and high return on investments in trade. The Government on the other hand is hardly responsible for the general feeling of insecurity and uncertainty that has prevailed in the country since its birth. Things, however, are bound to improve as the inter Dominion tension is relaxed, and abnormally high profits in trade disappear with greater competition and easier trade conditions. Moreover, the Muslims have lacked experience of industries and as they enter the field they will gather more confidence.

The Government of Pakistan in 1949 appointed a "Public Investment Enquiry Committee" in order "to examine the present and prospective position of investmeants and to investigate into the causes that have contributed to the lack of investment in industries in the country and suggest measures for remedying the position in this respect [1]." This Committee has already submitted its report which has not yet been made public though it is being considered by the Government.

To encourage private investment in industry the Government of Pakistan have taken several other steps. Among these are: Establishment of Industrial Finance Corporation, Tax Concession to industrialists, announcement of Tariff Policy and appointment uf a Tariff Commission, establishment of a Trading Estate at Karachi. In addition, the Government has established an Industrial Development Corporation in order to undertake development of certain key industries as Government concerns.

10 The Industrial Finance Corporation.—The idea of setting up of an Industrial Finance Corporation originated in 1946 with the then Government of India but it could not be implemented until after the partition. The Pakistan Industrial Finance Corporation Act of 1949 was passed by the Pakistan Parliament in February, 1949.

The Corporation has a share capital of Rs. 3 crores of which 51% is subscribed by the Government of Pakistan and 49% by private investors. The controlling voice in the management is thus of the Government. This is how it should be under the conditions prevailing in Pakistan. With Government backing, the Corporation would inspire more confidence among the investing public. It is felt, however, that full use has not been made of the investment potentialities of the institutional investors like the banks, the insurance companies and the cooperative societies. They could have been given greater opportunities of investment if a certain percentage of capital had been reserved for them as has been done in the case of the Indian

(1) Budget Speech (1948-47), p 32.

Industrial Finance Corporation.[1] Institutions like Banks, Insurance Companies and Co-operative Socities play important roles in the financing of industry in industrially advanced countries of the world. In a backward country like ours such institutions are afraid to take risks unless the Government backing is forthcoming. Through the Government aponsored and controlled body like the Industral Finance Corporation available funds with such institutions could have been directed toward industrial development.

Anyway the Corporation has been functioning since July, 1949 and has advanced loans to industrialists to the extent of Rs. 120.5 lakhs up to the end of February 1951. The Corporation has also opened an office at Chittagong to meet the requirements of East Pakistan.

11. **Taxation Relief to Industry.**—In order to encourage investment in industry the Pakistan Government in para 12 of the Industrial Policy announced in April, 1948 gave details of the concessions granted to industry. These were also incorporated in the budget for 1948-49. These concessions have been further liberalised recently and stand in their latest form as follows:—

New Industrial undertakings using power-driven machinery and employing more than fifty persons in Pakistan, during the first five years beginning with 1948-49 assessment, were exempt from income tax, super tax and business profit tax on so much of their profits as do not exceed five per cent of the capital employed. This concession has been extended by further three years in the budget for 1951-52. But the total period for concession is restricted to five consecutive years beginning with the year in which the business is set up.

A special depreciation allowance (which is in addition to the normal depreciation allowance) is given in the first year at the rate of 15% on buildings erected between 1st April, 1948 and 31st March, 1953 (both dates inclusive) and at 10% on other buildings.

Initial depreciation is allowed at 20% in the case of machinery or plant installed where the machinery or plant has not previously been used in Pakistan.

Depreciation in respect of plant and machinery installed on or after 1st April, 1948 and before 1st April, 1953 is allowed at double the prescribed rates.

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(1) The capital has been allotted as follows in the case of the Indian Corporation : Government 20% : Reseave Bank 20% ; Scheduled Banks 25% ; Insurance Companies 25 %; Co-operative Credit Societies 10 per cent.

An extra depreciation allowance is given on machinery and plant to 50% of the normal rate for double shift working and 100% of the normal rate for triple shift working, proportionate to the number of days during which double or triple shifts are worked.

The concession given in 19-6 in respect of incomes from new constructions in the shape of exemptions from tax for two years from the date of their completion has been revived for buildings whose contruction commences and completes between April 1, 1951 and March 31, 1953.

There are provisions in the Income Tax Act for the allowance of expenditure on scientific research.

[illegible] d King- [illegible] double [illegible] ation. [illegible] consist in the special depreciation allowances on buildings, double depreciation allowance in the case of plant and machinery, extra depreciation allowance for multiple shifts, provisions regarding research expenditure and exemptions on investments, and avoidance of double taxation.

In addition to the tax remissions the Finance Minister announced in the budget for 1949-50 a lowering of import duty on machinery from 10% to 5% and remission of the import duties on copper and scrap. In the budget for 1950-51 the super tax rates for assessees other than companies was readjusted to a lower level for the higher incomes. This was done because of the general conclusion of the Public Investment Enquiry Committee that "the existing level of taxation is high and operates as a deterrent to capital formation and investment in industry".[1] To give impetus to investments in new public companies floated for the purpose of engaging in industrial undertakings the Budget for 1951-52 has provided for exemption both from income and super taxes of a portion of an investor's total income equal to $\frac{1}{4}$ of the amount invested by him in share capital of a company approved by the central government but not exceeding 1/10th of the tax payable by him on the total income.

The concessions given to industry by the Pakistan Government are fairly generous and should go a long way to encourage private investment in industry. It will, however, take some time before the Pakistan capitalists become really industry-minded. In the meantime the Government has decided to take initiative in this field.

(1) Budget Speech 1950-51, p. 78.

12. Industrial Development Corporation. Thus spoke the Finance Minister of Pakistan while presenting the budget for 1950-51 : "While private enterprise has come forward in some measure to develop certain industries it has not shown that enthusiasm and interest for other industries which require large blocks of capital, considerable technical skill and extensive managerial experience and are of vital concern to Pakistan. Private enterprise is not able, unaided, to undertake these projects".[1] Such was the *raison d' etre* of the establishment of the Industrial Development Corporation. An Act to establish such a Corporation was passed by the Pakistan Parliament in 1950. This Corporation has been charged, in the first instance, with the development of six key industries of Pakistan *viz.* jute, paper, heavy engineering, shipbuilding, heavy chemicals and fertilizers. The preliminaries for setting up the corporation are over and it supposed to begin functioning soon.

This step of the Government is welcome. It is a really positive measure towards the industrialisation of the country. The Corporation will develop basic industries which as the Finance Minister pointed out are not likely to attract private enterprise on account of the huge capital investments involved. Moreover, these industries will serve as models and guides for the establishment of private industrial units. They will attract capital (which is not very enterprising in this country) because the credit of the Government, will inspite confidence among the investing classes. The products of these industries are very essential for our development needs and will promote further productive activity in many fields. In addition these industries will utilise our own raw materials, will train technical skill, expand employment and relieve the pressure on our foreign exchange resources. Industriel development is a cumulative process. The initial push given by the Government to this process will have far-reaching consequences on the pace of our development.

13. The Karachi Industrial Trading Estate. Another important step of the Government which is full of great potentialities for industrial development is the establishment of the Karachi Industrial Trading Estate.

It was before partition that the Sind Government planned to establish three Trading Estates to be located respectively at Karachi, Hyderabad and Sukkur. They were expected to cost Rs. 1.25 crores.

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(1) Budget Speech (1950-51), p 26.

The Estate at Karachi was to be given the first priority. In May 1947 the Government of Sind sanctioned Rs. 25 lakhs for an Industrial Trading Estate to be established in the Trans-Lyari area, north-west of Karachi.' The idea was to provide basic facilities for factory buildings level ground, transport, power, water etc. to industrialists.' Soon after partition the Sind Government floated a company which was registered on 29th of Nov. 1947 Construction work had already begun in September of the same year when the foundation stone of the Valika Textile Mill was laid by the Qaid-i-Azam. Since the separation of Karachi from the province of Sind the Estate has passed under the jurisdiction of the Government of Pakistan. The administration of the Estate is vested in a public Company of which four Directors are nominated by the G [illegible] lines but under Government [illegible]

According to the plan the area of about 22,000 acres comprising the Estate will be served with rail, road, water, electricity and drainage. The area is divided into eight zones earmarked for specific groups of industries as follows:

(1) Textile. (2) Foodsuffs (3) Abnoxious trades. (4) General Trades. (5) Engineering works. (6) Chemical Industries. (7) Medicine Manufactures. (8) Cigarettes and Tobacco manufactures.

The idea is to concentrate similar industries in separate zones. Standard buildings of reinforced concrete are to be erected. There will be office accommodation in them to be leased out at nominal rates

In the centre there will be an administrative block of buildings housing the management of the Estate. There will also be provision for a bank, a dispensary, post and telegraphs office, Police Post, Fire Brigade, Restaurant and accommodation for holding meetings etc. There will also be a certain amount of accommodation for labour in the form of quarters providing two rooms and a verandah per family. These quarters will be scientifically designed to give maximum light and fresh air. It is estimated that the estate will provide housing for 15,000 labourers. There will also be a large number of godowns for the use of factory owners.

By now quite a number of factories have already been constructed and others are under construction. Further, 4½ miles of railway line has been completed, a post office has been set up, seven telephones have been installed and 3¾ miles of

water distributive system has been completed. The scheme when completed will supply five million gallons of water a day.

It is beyond doubt that establishment of such trading estates can greatly help the process of industrialisation in Pakistan. In this way many of the initial difficulties facing new industrialists can be obviated. The acquisition of land, construction of buildings, and getting the essentials like water, electricity and transport involve considerable expense and inconvenience if acquired by individual industrialists. Under the trading estats systems they are made available at reasonable rates and without the delays and inconveniences involved through official red-tapism. Such estates should be established all over Pakistan at convenient centres keeping in view the availability of industrial raw materials, transport and marketing facilities and other economic and strategic factors. Hyderabad and Sukkur were chosen by the Sind Government even before partition. It is hoped that their plans will be pursued and other centres can be found in the Punjab like Lyallpur, Wazirabad, Gujrat, Sialkot, Jhang, Rawalpindi etc. Possibility of selecting suitable sites in the other provinces should also be investigated. Each provincial Government may be asked to appoint a Committee to go into this matter and report regarding the localities to be selected for this purpose. Such Committees, should be composed of business men, industrialists, Government officials and technical experts as members.

14. **Tarriff Policy of the Government.** In spite of these facilities and concessions granted to Pakistan industries foreign competition may not allow them to take root unless the Government is willing to cover the initial disadvantages of home industries by a suitable tariff policy. Tariff protection has played a leading part in the development of industries in almost all the industrially developed countries in Europe and also in America. Among the Asiatic nations Japan built her industry through protection and India also achieved a great measure of success in industrialisation through protective tariffs imposed duriug the inter-war period. Her iron and steel industry, cotton taxtile industry and sugar are classic examples of development through protection.

The Pakistan Government has already announced their intention of granting tariff protection to deserving industries and have appointed a Tariff Commission under the chairmanship of Dr. Nazir Ahmad. The Commission has already completed preliminery investigation into the cases for the protection of certain industries. The recommendations of the commission are under the consideration of the Government.

Announcing their "Import and Export Policy Relating to Industry including Tariff Protection" the Government of Pakistan, Ministry of Industries, stated as follows :—

"Tariffs are not crutches for permanently infirm industries. Leaving aside the excepitonal case of an industry which is established for extra-commercial reasons, such as national security, the assumption made by any Government when it grants protection to a new industry should be that having regard to material advantages the industry is likely to be able to dispense with the necessity of protection within the reasonable period and during the period of assistance the cost to the consumer or to the state will not be excessive. Government has not only to consider the consumer and the general tax payer but also the interest of other industties concerned which use protected articles. In this last case the effects of the injudicious assistance may well spread beyond the industry immediately concerned. Even when satisfied that the industry has a chance to stand on its own feet in due course, Government will still requite to be convenced that the industry claiming protection is being estblished on sound lines and will be conducted with reasonable efficiency; and any tariff commission which is established will certainly be required not only to say what assistance, if any, should be given to an industry but also to determine what should be required of that industry to secure production at the most economical cost and to keep under review the progress made in implementing its recommendations in this regard. In was with such considerations in mind that the Government of Pakistan promised "reasonable" measure of protection"[1]

The above statement purports to be an elaboration of the words "reasonable measure of protection" promised by the Pakistan Government to industries in their Industrial Policy announced in April, 1948. According to this interpretation of "reasonable" the Tariff Commission must satisfy itself :

(a) that having regard to material advantages the industry will be able to dispense with protection within a reasonable period of time :

(b) that during that period of assistance the cost to the consumer and the state will not be excessive ;

(c) that assistance to the industry concerned does not have adverse consequences on other industries which use the protected article ;

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(1) Impors and Export Policy etc. : Government of Pakistan, Ministry of Industries, pp. 1 and 2.

(*d*) that the industry claiming protection is being established on sound lines and will be conducted with reasonable efficiency in the sense understood by the Commission and in fact enforced under the supervision of the Commission. This is discriminating protection with a vengeance.

It will be recalled that the Indian Fiscal Commission had drawn a similar formula for the guidance of the Tariff Board. That formula was :

(*i*) The industry to be protected must possess natural advantages, such as plenty of raw material, cheap power, sufficient labour and a large home market.

(*ii*) The industry must be one, which, without the help of protection, is either not likely to develop at all or not rapidly enough to serve the interests of the country.

(*iii*) The industry must be one which will eventually be able to face world competition without protection.

The formula was not to be applied in the case of industries essential for national defence ; those faced with foreign dumping or bounty fed imports. The formula of the Pakistan Government makes exception only for industries essential for national security and leaves those faced with foreign dumping or bounty fed competition to their fate. Condition (*a*) of the Pakistan Government's formula cover (*i*) and (*iii*) of the Fiscal Commission's formula. Condition (*ii*) of the Fiscal Commission's formula appears to be meaningless. The very fact that an industry has not developed without protection shows that it needs protection to develop. In fact these conditions were widely criticised as vague and either impossible to fulfil or superfluous. In fact the Tariff Board rarely observed them strictly otherwise, probably, no industry would have qualified for protection.

The Pakistan Government has offered conditions still more difficult to satisfy ; in fact, very difficult to determine. The task of the Tariff Commission is likely to be a very tough one. In addition to the condition suggested by the Fiscal Commission the Pakistan Government has put further difficuties in the way of acquiring assistance on the part of nascent industries. It will for instance, be very difficult to define such qualifying phrases aa "reasonable period of time", "excessive cost to consumers and the State", "sound lines," "rrasonable efficiency", etc.

Pakistan has to start from scratch so far as her industrial development is concerned. People are already over-cautious in embarking upon industrial enterprises. What is necessary is a bold policy of all-out help to industry. The consumer, the

state and industries using products of protected industries if any, will have to make sacrifices How long and to what extent it is not possible to determine beforehand even by an expert body like a Tariff Commission If the Commission is competent enough to apply the very vague conditions laid down by the Government, it is competent enough to judge the cases of indusrries according to the standards evolved out of its own experience. The Commission should be appointed with care and given a long tenure and should then be fully trusted. Each case should be considered on its own merits according to the needs and the circumstances of individual industries If the Commission subsequently finds that assistance given to particular industries has been based on an error or is being misused it can recommend its withdrawal. It should be taken for granted that no protection can be awarded to an industry without involving sacrifice by some party or the other The question is whether the sacrifice is economically justified? This only experience can show and cannot be determined beforehand. Moreover, in assessing the value of protection broader and long period advantages of industrialization not only in the economic but also in the social and political fields, must be given due weight

15. Importance of Technical Assistance. Even if the country has capital resources, can purchase equipment in the form of machinery and stores necessary for setting up of factories, and the Government is willing to afford initial facilities and protection against foreign competition, industrial growth may be negligible due to the absence of what is called "know how". Workable plans have to be chalked out, and they have to be implemented with the least expenditure of resources. Technical personnel is required for advice, guidance and even for operation in initial stages In any undeveloped country like Pakistan the lack of such personnel is one of the main bottlenecks which has to be overcome For this purpose help from more advanced countries is indispensable if relatively quick results have to be obtained.

Happily the need for such assistance to under-developed countries is being realised on an international scale Efforts are being made under the auspices of the United Nations to promote the flow of technical knowledge and technical skill from the more developed countries to the under-developed countries The United States of America is showing a very keen interest in this matter under what is called " Point Four Programme." Arrangements for technical assistance have also been made

under the Six Years Plan for the Economic Development of South and South-East Asian countries, as we shall see.

16. The Role of the U. N. O. Technical assistance programme of the United Nations is being implemented through the various specialised agencies like the International Labour Organization, Food and Agricultural Organization, International Civil Aviation Organization, International Monetary Fund, International Bank for Reconstruction and Development, International Telecommunication Organization and the World Health Organization. This programme among other things includes: Sending of expert missions to under-developed countries for carrying out economic surveys, provision of individual experts to members of the United Nations to advise on such matters as fiscal administration, improvement of statistics, provision of Advisory Welfare Services including fellowship programmes for the training of experts in social welfare work or furnishing such experts to requesting Governments. Arrangements are made through holding conferences and issuing publications for making available to the world the most up-to-date experience and knowledge in such fields as housing, town planning, child welfare and other matters of economic and social development.

17. Point Four Programme of the U.S.A. In his inaugural address to the American nation after having been elected President, Mr. Truman chalked out four major courses of policy which his administration meant to carry out in the ensuing years. The fourth course or the point of this address promised technical assistance to under-developed countries and the programme related to it has come to be known as the "Point Four Programme." Said the President. "We must embark on a bold, new programme for making the benefits of our scientific advance and industrial progress available for the improvement and growth of under-developed areas. Our aim should be to help the free peoples of the world, through their own efforts to produce more food, more clothing, more materials for housing and more mechanical power to lighten their burdens."

This programme, it has been emphasized by American authoritative sources, does not involve industrialisation of other countries on the part of the United States, nor does it involve direct financial help to such countries, nor does it aim at the economic domination of the less fortunate areas. The aim of the programme is to provide technical, not financial, assistance. It is primarily a programme of self-help. The countries are to be assisted in their own efforts in the way of development of their natural, human and capital resources.

According to the United States Information Services[1] specific areas where widespread improvement of technique would be expected to contribute liberally to the productivity of these resources include the following:—

(a) Natural resources : soil conservation ; plant and animal husbandry, forest and fisheries management ; water control and use, including water supply irrigation and reclamation waterways and power development ; mining and fuel.

(b) Human resources : health including sanitation and nutrition, welfare, including social services and social insurance; education particularly fundamental, rural and vocational; man-power training and utilization.

(c) Capital resources : Industrial technology, facilities and equipment, organization ; of business and finances, housing ; transportation marketing and distribution.

18. **Pakistan's Attitude to Technical Assistance.** It will be seen that in most of these respects Pakistan will require technical assistance To implement this programme legislation is under consideration by the United States Congress and a sum of about Rs. 50 million dollars is being asked for. In the words of the Assistant Secretary of State of the United States this legislation " contains the authorisation of a substantial sum for technical assistance to Pakistan."

It should be appreciated that this assistance to the underdeveloped countries is not provided in any spirit of charity by the United States or the United Nations. Behind this offer are cogent political end uconomic reasons. Economically now it is widely realised that economic development of backward countries, far from affecting adversely the volume of trade and living standards in more advanced countries, is in fact the only method by which more highly developed countries can maintain and increase their living standards indefinitely. Unequal economic development of the world is a source of economic instability and insecurity. Politically, in the context of the clashing rival ideologies, struggling far dominance as they are today, a depressed and discontented mass of humanity is the most fertile soil for the growth of ideas which seek completely to destroy the present social and economic structure in their respective countries. By promoting economic development in backward countries the industrially advanced countries will gain : firstly, on account of the expanding demand for their product which is bound to arise as the purchasing power

(1) See Karachi Commerce, Annual Review—1950, p 46

of the hitherto indigent masses increase ; and secondly, because a more prosperous people will have greater resistance against ideas which seek to endanger the political and economic stability in their respective countries. They will resist all attacks against the existing system because they will feel they have a stake in it.

There is nothing wrong in both these motives. If a more prosperous and equitable system of society can be evolved without changing the present structure of institutions and values it should be regarded as a commendable effort by all sensible and progressive peoples. Pakistan must take full advantage of such an offer. Care, however, will have to be taken that the help accepted in no way affects the sovereignty and integrity of the countries which accept such help.

19. Pakistans Demand's for Technical Assistance. Pakistan has already received technical assistance from foreign countries in certain matters and in others requests have been made for assistance.

With respect to paper projects consulting firms from Canada and Sweden were invited to advise the Government and their reports are under consideration. A mission consisting of representatives of two firms, one in the United Kingdom and the other in the United States, visited Pakistan in August, 1949 to advise regarding erection of a 100,000-ton ammonium sulphate plant for the production of fertilizers. A Belgian firm has also offered its assistance in the same connection. The reports of these advisers have been referred to a special officer appointed by the Pakistan Government's to examine them throughly and to evolve a co-ordinated scheme for setting up the fertilizer plant.—A tin and tube project has been surveyed by a United States firm while a group of fourteen U.S. experts have surveyed a steel project. For the hydro-electric project the expert advice of Sir Henry Howard has been sought, and for irrigation projects an expert from the United States Bureau of Reclamation was being made available by the State Depattment of the Interior. Dr. Crookshank, a British expert, heads the Geological Survey Department of Pakistan.

Pakistan further requested the United Nations to send a small group of experts to make a critical appraisal of the development plans already prepared or under preparation. Arrangements are also being made for a team of experts to advise on establishment of a pharmaceutical industry. Negotiations are afoot with certain firms in Belgium and England,

Another team of experts is being requested for advice on ship repairs and shipbuilding.

Another method of obtaining technical assistance is in the form of facilities for training of Pakistan nationals Such facilities are being asked through the United Nations in the field ring, bridge and navigation, hydr ufacture of steel products and machinery manufacturing of consumption goods such as textiles, sugar, leather. Fellowships will be created for these purposes and where the awards for fellowships cannot be provided by United Nations funds, the Pakistan Government would bear the cost. United Nations' assistance is asked chiefly in the matter of placing these fellows in those countries where relevant training facilities are available.

The purpose of some of the above-mentioned fellowships will be to study basic research work abroad with a view to establishing in Pakistan of " analytical laboratories and test houses " and of scientific and industrial research organizations. The Government further envisages the establishment of training centres in Pakistan ; for instance, a training centre on irrigation in Lyallpur, on public health in Lahore and/or Karachi, on veterinary research in Lahore and/or Peshawar have already been suggested. The Food and Agriculture Organisation of the United Nations has been approached on this matter.

The United Nations Organisation is also being approached to arrange fot the engagement of experts in various fields—five expetts are urgently wanted to advise on railway accounting and administration ; experts are also wanted for experiments in the manufacture of telecommunications equipment and in training officials in the postal and telegraph services The Government further wishes to engage technician, in fields ranging from preventive medicine, nutrition, fisheries, textiles and ceramics during the next two or three years. A list containing 28 jobs in various fields has been submitted to the U.N.O. for assistance. Requests have also been made for one or two first class geologists and for an expert on cottage industries and another on waterlogging. U N O. will serve as an intermediary in the proper channeling of these and other demands which fall within the substantive fields of such specialised agencies as the F A O; I L O, U N E S C O , and W H O.

20. **Technical Training Facilities in Pakistan.** So far technical assistance from outside. Technical training facilities of a rather elementary kind are also being provided within

Pakistan itself. The primary aim of these was to absorb into the economy of the country army ex-servicemen. Such facilities, however, are now also extended to civilians. The training scheme of the Department of Resettlement and Employment, Ministry of Law and Labour, Government of Pakistan, has been converted into a training-cum-production scheme in which up to 50% of the seats are available for civilians. Under this scheme training is provided in vocations like woodwork and metal trades for a period of one year. After a few months' training students are encouraged to produce articles of utility—e.g., furniture, utensils, machines, machine parts, electrical equipment, soap, shoes, leather goods, handloom cloth etc. During the second phase of the training a bonus in the form of 25% of the profits in the articles produced is given to the students.

The scheme also trains technicians who wish to learn skill for employment in large-scale industries. Mainly, the technical skill is imparted on cottage industries level, though in an emergency these technicians can be employed on certain kinds of jobs in large-scale industries. These facilities, however, are not adequate for the needs of large-scale industrialisation.

The training centres under this scheme are located as follows : N.E.D. Engineering College at Karachi; Training Centre for the War Disabled, Moghalpura; Vocational Training Centre, Sialkote Cantt.; Dyanand Technical Institute, Lahore; Technical Training Centre, Peshawar; Technical Training Centre, Dacca; and Mission Industrial School, Faridpur (East Bengal).

The scheme has alteady proved to be not only self supporting but also profitable to the Government.

21. **Small Scale Industry.** So far we have confined our attention to what has been done as regards large scale industry. A few words may be said about the small scale and cottage industry also. The Government has taken various measures to help and encourage the small scale as against the factory industry. The cottage and small scale industries in fact are a responsibility of the Provincial Governments. The Central Government has, however, not entirely neglected this type of industry. The Central Government appointed a Committee to study the problems and to draw up a scheme for the development of small scale and cottage industries in th - areas administered by the centre. The recommendations of this Committee are being implemented. Further, the Government has started a "cottage industries scheme" with a view to overcome the difficulties in obtaining suitable and standard raw materials, absence of

standardisation and marketing facilities, lack of publicity, lack of proper organisation and to improve designs and methods of production. This scheme can serve as a model for provinces and states. This scheme according to the Pakistan's Minister for Industries "envisages the establishment of sales and display centres at Karachi, Chittagong, London, New Yark and also in the provinces and the states."[1] Show rooms are also being opened in our deplomatic offices in Turkey, Iran, Australia, Indonesia, Colombo etc. Show rooms have been secured in leading hotels and air ports There is a show room in the National Museum at Karachi. It is also proposed to open sale and supply depots at Karachi, Peshawar and Quetta.

"Patronise Pakistan products" campaign is being vigorously pursued for which cinemas and radios are being fully utilised. The Post and Telegraph Department will also assist in this campaign by issuing special 3 P's stamps and by defacing stamps by appropriate slogans. The Government of Pakistan have decided to give as much preference to home made products as they can under the present circumstances. It is proposed to set up an Industrial Home for women at Karachi. The Budget for 1950-51 has allocated Rs. 5 lakhs for the industrial development of tribal areas of N.-W. F.P. Industrial units will be set up "at Kurrum for metal, wood and Mazri work; in North Waziristan for metal work and Bee-keeping; in South Waziristan for wood works and metal work; at Malakand, wood work and apiary and at Khyber for the revival of marble quarrying[2]".

The Government is proposing to send an Industrial Mission to Japan. This Mission in addition to the representatives of the Central and Provincial Governments, will include 8 boys from the artisan classes. These boys will stay on for six months while the Mission will come back after a month. They will study intensively the relevant branches of Japanese Cottage Industry. The mission will also explore the possibility of bringing technical and industrial instructors from Japan.

The Pakistan Minister for Industries in his address to the Council of Industries revealed that the Government has under contemplation a scheme to organise handloom Production on a more scientific and rational basis. Under it a number of or-

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(1) Hon'ble Ch. Nazir Ahmad, Minister for Industries in his address before the 2nd Meeting of the Council of Industries on 9th November 1950, p. 13.

(2) Industries Ministers' Speech op cit p. 14.

ganizations will be established in important handloom centres. These organizations, if the scheme is approved, will consist of three separate sections :—

(a) Manufacturing—including provision of raw materials, dyeing of yarn and finished articles and fabric designs ;

(b) Finishing and calendaring of handloom products and

(c) Their marketing.

These centres are expected to solve many of the difficulties that usually face the small scale weavers. The co-operative principle should be fully utilised in this connection as has also been suggested by the Minister of Industries.

Another method of helping small scale industries is the holding of exhibitions where there products can be publicised. Three major exhibitions have already been held at Karachi for this purpose. Three more have been held in other parts of Pakistan during a period of one year. The Ministry of Industries proposes to have permanent exhibitions set up to display the products of indegenous industry. The Ministry also proposes to arrange for an annual demonstration train for the same object.

As regards financial assistance to the small artisan the Ministry of Industries have put up certain legislative proposals which are under examination at the moment and are likely to be implemented during the financial year 1951-52. The working of the Industrial finance. Corporation has revealed a certain amount of regidity in its operations The possibility is being considered of amending the Act to make the Corporation more helpful to the small industrialist.

All these steps are in the right direction because, as we have already noted, small scale and cottage industries will play a very important part in our economic life for a long time to come. This sector of our economy deserves special attention of the Government not only because it is already giving employment to the largest number of workers after agriculture, but also because these workers suffer from serious limitations and disabilities due to their meagre financial resources, unorganised character and general ignorance and illiteracy prevailing among them. Moreover, the migration of the non-Muslim financiers, traders and middlemen have left them entirely resourceless and helpless. The rehabilitation of the small scale and cottage worker, therefore, should form an integral part ofour national

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(1) Industries Minister's Speech op cit p. 15.

plan of economic development. Haphazard and unco-oadinated steps will not produce significant and permanent results.

22 Planning in Collaboration. So far we have reviewed the plans and schemes of the Pakistan Government which were drawn in isolation with a view to developing our national resources. In fact these scheme could not even be called a national plan. They were mostly *ad hoc* proposals of the provincial Governments and the Central Ministries which the Development Board co-ordinated and approved

Early in 1950 a new development took place. A conference of Commonwealth Foreign Ministers was held at Colombo (Ceylon) on which among other things it was generally agreed "that the problem of South and South East Asia was essentially economic and called for urgent measures to raise the standard of living of the people of the area."

Another Conference at Sidney (Australia) In May, 1950, considered the ways and means of implementing the recommendations of the previous Conference. Accordingly the Commonwealth countries and other Governments in the South and South East Asian region were asked to draw up their respective plans for a period of six years.

It was further agreed at Sidney to launch a scheme of technical assistance costing £ 8 million. Since the most important difficulty in the way of economic development of this region had been the lack of technical education and skill.

In July, 1950 another conference of representatives of the countries concerned drew up a detailed scheme of technical assistance. A constitution for a Council of Technical Assistance was drawn up and it was agreed that the scheme should include training of personnel from under-developed countries, the loan of experts, instructors and advisory missions by the highly developed countries to assist in planning development, and reconstruction in Scientific research, agricultural, industrial and other productive activities and lastly, the provision of equipment required for training of technical experts in the region.

In accordance with the decisions of the Colombo Conference the various Commonwe[illegible] South and South East Asia drew up their [illegible] plans were examined by the Co[illegible] Committee in London in September, 1950. The report of this Committee known as the Colombo Plan for Co-operative

Economic Development in South and South East Asia gives the details of this programme.

23. **South East Asia Development Plan.** This plan is the co-ordinated result of the programmes submitted by Pakistan, India, Ceylon, the Federated Malaya, Singapore, North Borneo, Sarwak and Brunei.

The total public investment will amount to £ 1868 millions which will be distributed as under :—

millions £'s

	India	Pakistan	Geylon	Malaya etc.	Total
Agriculture	456	88	38	13	595
Transport	527	57	22	21	627
Fuel and Power	43	51	8	20	122
Industry and Mining	135	53	6	...	194
Social capital	218	31	28	53	330
Total	1379	280	102	107	1868

In terms of percentage expenditure under each head of the total expenditure the above table may be reproduced as below :

Percent of total

	India	Pakistan	Ceylon	Malaya etc	Total
Agriculture	33	32	37	12	32
Transport	38	20	22	20	33
Fuel and Power	3	18	8	19	7
Industry & Mining	10	19	6	...	11
Social Capital	16	11	27	49	17
Total	100	100	100	100	100
Country wise% share	73	15	6	6	100

It will be seen that the main programme concerns India which will spend almost three quarters of the total funds. Pakistan comes next with less than one seventh and the remaining are astogether just over one tenth of the total expenditure.

As regards the main heads of expenditure for the over all programme transport receives the highest priority mainly

because India has given it the first place in her plan. This is closely followed by agriculture. For Pakistan and Caylon agriculture heads the list. Pakistan has given special importance to the development of her power resources. Similarly her expenditure on Industry and mining is also relatively higher than India. India has rightly spent higher amounts on transport because of the vast distances of the country. For social development Malaya and Br. Borneo heads the list. Each country has neturally emphasised particular developments according to its own needs.

In terms of results the following increases are expected afer the plans have been duly implemented.

(a) An increase of 13 million acres (3½%) in land under cultivation.

(b) An increase of 6 million tons (10%) in the production of food grains.

(c) An increase of 1.1 million killowatts (67%) in electricity generating capacity.

The plan estimates that the total expenditure will be financed to the tune of £ 1030 million ftom domestic Capital resouries and the balance of £ 838 million from foreign borrowing. This:—

	million £s				
	India	Pakistan	Ceylon	Malaya etc.	Total
Total expenditure	1,379	280	102	107	1,868
Domestic capital	772	151	61	46	1,030
Foreign borrowing	607	129	41	61	838
Pecrent from foreign borowing	44%	46%	40	57	45

Thus about 45% of the total expenditure will have to be supplied by countries other than the regions concerned. This is necessary because of the low saving capacity of the poverty stricken people of this area.

The Government of each country, however, will try to meet as much of the cost as possible. A good deal of development is already under way and the programme includes many projects in which work has already been started. It is proposed to speed up the rate of development.

The greatest deficiencies of the countries are in trained men and capital goods. In 1949 their were about 3,000 universities, technical training colleges and trade schools in this region. These turned out 158,000 trained men a year. By 1953 it is hoped to increase the number of institutions to 3,670 and the out put of trained men to 200,000 a year.

The Commonwealth countries have already agreed to contribute upto £ 8 million over the next three years to meet the needs of technical assistance.

The cost of essential imports could be met from the followings ources :

(*i*) From their sterling balances, their main stay of external capital. India, Pakistan and Ceylon expect to draw further on these funds to a total of £ 246 million over the next six years.

(*ii*) From private investment.

(*iii*) From loans by private investors floated in London and other important financial centres to Governments in the area.

(*iv*) From loans from the International Bank for Reconstruction and Development.

(*v*) From grants and loans from other Governments.

24. Pakistan's Six Years Plan. The plan that the Pakistan Government submitted to the Consultative Committee will cost as already noted £ 280 or Rs. 260 crores which will be spent for the development of the various sectors of our economy thus ;

Agriculture Rs. 82 crores.

Transport and communications Rs. 53 crores (Railways Rs. 20 crores; ports Rs. 14 crores, roads, Rs. 10 crorers, tele-communications Rs. 9 crores).

Fuel and power Rs. 47 crores.

Industry and mining, Rs. 49 crorers.

Social capital (education, health, housing, Karachi water supply) Rs. 20 crores.

Training overseas and setting up of polytechnics, laboratories etc. Rs. 9 crores.

Agriculture. The Rs. 82 crores allotted to agriculture will be spent as follows :

	Rs. crores
Irrigation (excluding multipurpose projects like Warsak).	23.5
Land settlement.	16.0
Subsidisation of fertilizers and manures.	9.2
Improved varieties of seeds.	10.0
Mechanisation.	8.0
Anti-waterlogging measures.	12.4
Development of Animal Husbandry.	2.0
Development of fisheries.	1.0
Miscellaneous.	0.3

The targets of production under the Agricultural plan have been fixed as under :

	Our-put 1000 tons.		Increased out put 1000 tons.			
Crops.	Present.	Estimated 1957	Due to increased acreage.	Due to increased yield	Total increase.	% increase in 6 years.
Cereals and pulses.	150,46	175,96	18,48	7,02	23,50	17
Food cash crops (oil seeds vegetables, sugarcane, fruit, tea.)	50,04	93,09	30,55	12,50	43,05	86
Total food crops.	200,50	269,05	49,03	19,52	68,55	31
Non-food cash crops (jute tobacco, cotton).	13,59	15,47	1,22	66	1,8:	14
Total.	214,09	284,53	50,25	20,18	70,43	33

The increase in the production of other agricultural commodities e g. wool, hides and skins, forest products, milk products and fodder is estimated at about 550 lakh tons. Out of this 480 lakh tons represent fodder, 50 lakh tons forest products and 13 lakh tons milk products.

Fuel and Power. The hydro-electric power potential in Pakistan is 50 to 60 lakh K. W. against which the present installed capacity is 9,600 K. W. Thermal stations provide another 59,500 K. W. This represents a very small per capita consumption. It is proposed to build new stations capable of

generating an additional 200,000 K. W. of hydro electric power and about 56,000 K. W. of thermal power at a cost of Rs. 45 crores.

This will supply the power needed for the extensive new pumping and irregation projects contemplated in the plan, for the running of the jute and cotton factories to be set up and machinery which will be used in modernising the mines.

Following a survey by professional consultants the Government is taking measures to increase the out-put of coal. Workable deposits are estimated at 16.5 crores tons and the development plan provides for an expenditure of nearly Rs. 2 crores to increase the present low out-put of 40,000 tons to 30 lakh tons a year.

Transport and Communications. In this connection the plan concentrates particularly upon rehabilitation and replacement of worn out locomotives and rolling stock of railways. The expenditure provided for these purposes is estimated at Rs. 20 crores. Roads development has been allotted an additional Rs. 10 crorers and tele-communications Rs. 9 crores. Since it is necessary to increase the handling capacity of the Chittagong port on which has fallen a very great strain of exporting East Pakistan's produce, Rs. 13 crorers have been provided for this purpose. This will increase the handling capacity of the port to 39.6 lakh tons a year as compared to 18 lakh tons at present and only 6 lakhs tons pre-partition,

Industry and Mining. Special attention is given to jute and cotton industries for obvious reasons. The plan contemplates the establishment of six jute mills which will produce 130,000 tons of jute goods and will be sufficient to supply Pakistan's own requirements and in addition leave a margin for export.

As regards cotton textile, the plan provides for the creation of 24 new cotton mills. This will increase the present annual production of 100 million yards to 450 million yards. The total consumption at present is 700 mullion yards which in itself is very low, since it comes only to about 9 yards per head. Thus Pakistan will still depend upon imported cloth in spite the plan. The plan also provides for a paper mill capable of an annual out-put of 30,000 tons. These factories—jute, cotton and paper—will cost Rs. 39 crores. Another Rs. 9 crores have been provided for miscellaneous industries like sugar, ceramics, glass, chemicals, fertilizers etc. belonging to the private enterprise sector. The plan also covers the cost of a geological survey of the country with a view to determining its mineral wealth.

Social Capital Under this head comes health services, educational facilities, and house building programmes These activities normally fall under the provincial field The Centre, however, has made a provision of Rs. 20 crores under these heads to supplement the finances of the Provincial Governments for these purposes. Another Rs 9 crores has been provided for training overseas of Pakistani scholars in technical and scientific subjects (Rs 5 crores) and for the setting up of polytechnics, laboratories etc. (Rs 4 crores).

To implement this plan the Pakistan Government has set up an Economic Council. "This Council" in the words of the Minister-in-charge Finaoce and Economic Affairs, "will have full power over the execution of the plan and will alone me responsible to Government for the implementation of Pakistan's first national plan for development." A Planning Commission has also been established.

25. Evaluation of Pakistan's Development Plan.— On the whole the Six Years Plan is a welcome attempt on the part of the Pakistan Government to visualise a more comprehensive development of the country than hitherto revealed by its development schemes. The plan envisages an all round development of the country touching all the various axpects of its economy including agriculture, transport, communications, fuel and power, industry, mining, education, health and housing The plan is on the whole realistic in its approach It has not attempted to do too much As the Minister-in charge pointed out in his radio broadcast commenting on the plan on 28th November, 1950. "The National Plan of Pakistan is not spectacular, nor it is expected to yield dramatic results Ir is a sober and realistic programme of basic development which beyond everything else will prepare the country for future phases of development." "It must be viewed" he added "as the primary stage of a long series of developmental plans and its efficiency must be measured not by what we ultimately aspire to achieve but by whar we are capable of undertaking in our present state."[1]

In view of the needs of the country and the modest targets aimed at no doubt the plan is not spectacular. But the question is what are the chances of this modest plan being fully implemented.

How far this plan can become a basis for further plans in the future will depend upon the degree of success achieved

(2) Reported in Karachi Commerce December 2, 1950, p. 7

in its implemenlation. As we shall see in the next chapter the schemes already launched by the Government in pursuance of its targets set forth in the First Industries Conference of 1947, have not progressed according to plan. We shall note the main reasons for the slow progress of these schemes when we reviewed the schemes in the next chapter. As regards the present plan it is in co-operation with other Commonwealth ountrices and presumeably shall have better chances of success. But the main bottleneck of paucity of trained personnel non-availability of essential capital goods and in adequate finance will have to be overcome much more effectively than hither-to-fore.

The trained personnel can be imported but only in extremely limited quantities at the top ladders. The Government has been planning to send Pakistan youngmen for training abroad. This has either been done most inadequately or without proper planning as to their absorption after training. Private industrialists should themselves take up this matter and send out their employees for training abroad in large numbers.

As regards capital goods the experience of the past three years has not been encouraging. The largest imports of machinery took place during 1949—50 and that was to the value of Rs. 8 crores which is extremely inadequate. The trouble has not been so much regarding finance. Delays in deliveries has been the major cause. There has been a real shortage of capital goods in the producing countries due to the aftermath of war. On the other hand the demand for them has been great especially on the part of war damaged countries of Europe, which received first priority from the main supplier the U. S. A. Now the supply position would have been eased but for the war preparations ushered in by developments in Korea. Unless the international political situation is eased the difficulties of obtaining capital goods will increase rather than decree in the near future. If the war actually breaks out on a world scale the whole Commonwealth Economic Plan will have to wait for some future date.

The third factor is that of finance. As we have seen as for as Pakistan is concerned the plan envisages finance through externel borrowing to the tune of £ 129 million (Rs. 120 croers) and from domestic capital to the amount of £ 151 million (Rs. 140 crores). What are the chances of getting this money.

26. Possibilities of Internal Finance.—As regards internal finance it has been widely compained that

private capital is not forthcoming for industrial purposes. In the recent meeting of the Council of Industries, the Prime Minister of Pakistan said "I am constrained to say that our hopes that capital from within the country will be forthcoming for industrial investment have not been realised"[1] The Government was so much concerned about this matter that they appointed an Industrial Investment Enquiry Committee early in 1949 to investigate into the causes of the lack of enthusiasm on the oart of Pakistan capitalists for investment in industry. The report of the Committee is still with the Government. As hinted by the Finance Minister in his Budget speech for 1950-51, one conclusion of the committee is that high taxation stands in the way of capital accumulation in Pakistan. But high taxation does not seem to stand in the way of investments in trade and commerce. The real reason is that trade and commerce, especially since the partition, have been yielding not only high profits but profits without much risk and delay. Industrial investment involves greater risks due to much higher initial investments and also on account of the natural delay in yielding fruit. Only well seasoned industrialists can afford to take such risks and the number of such industrialists in Pakistan is extremely small. The Muslims have had very little experience of industrial enterprises. You cannot blame the capitalist for being attracted towards safer, more remunerative and quicker fruit yielding enterprises. To make matters, worse the Government bureaucracy, especially in the lower rungs of its ladder, has not been helpful. Complaints of inefficiency, red tapism and even corruption have been frequently heard in the matter of granting of necessary facilities to the industrialists. The Government must set its own house in order in this respect if these allegations are correct.

So long as private enterprise is not forth-coming to undertake industrial ventures the Government must enter the field itself. This matter was also hinted at by the Prime Minister in his speech before the Council of Industries when he said. "Government may, therefote, have to consider raising loans for financing industry and also take other steps for creating credit facilities." We have already referred to the establishment of the Industrial Development Corporation and the Industrial Finance Corporation by the Government. The Government should vigorously pursue the policy of direct participation in industry. Once confidence in the success of

industrial ventures is established private capital will flow in needed quantities.

No doubt our capital resources are meagre because not only the margin between production and consumption is low but, whatever savings are available, are not being properly mobilised on account of the lack of banking facilities in the country. But there is money enough to implement a plan which requires only Rs. 140 crores over a period of six years. A sum of about 20 to 25 crores could be collected if proper approach was made. The Government is in the best position to do so. Floating of private companies has not attracted the investor because of the past history of such companies in these areas. People of meagre means do not wish to lose their investments at the hands of inexperienced if not actually dishonest promoters. It is because of this that during the period from 14th August, 1947 to 31st March, 1949 although capital to the amount of Rs. 31.57 crores was sanctioned for registered joint stock companies only Rs. 2.64 crores was actually paid up. On the other hand the Government by floating loans have been able to collect Rs. 86 crores during the post-partition period ending February 1950. Government loans have always been subscribed to the full and within the shortest period possible. For the Government to raise Rs. 25 crores a year, therefore, will be no problem. Moreover, as the plan proceeds it will at least partly become self-financing.

27—**Channels of External Finance.**—So far internal finance. As already noted Pakistan will have to find external finance through foreign borrowing to the tune of £ 129 millions. In addition it is envisaged that £ 16 millions will be needed through drawing upon our sterling balances. This brings the total external finance needed to £ 145 million.

According to the report which contains the Commonwealth co-operative plan the possible channels of external finance are as below:—

(*i*) Use of the countrys' own external assets (*i. e*, sterling balances in our case).

(*ii*) From private investors overseas to private investors in the area.

(*iii*) From private investors overseas to Government in the area.

(*iv*) From international institutions to Government in the area.

(v) From Government overseas to Government in the area.

There is every possibility that we shall get the necessary sterling balances released to the amount envisaged in the Plan. This matter we need not pursue any further here.

Private investments on the part of foreigners whether direct or indirect have not been encouraging in spite of all the facilities and concessions provided by the Pakistan Government. In any case these investments could not be substantial even if through the guarantees given by the International Bank such investments could be promoted. The International Bank could give help now that Pakistan has become a member of the International Monetary Fund and the International Bank of Reconstruction and Development. Even here, however, financial help cannot be expected on a large scale. The Bank in the past has been pre-occupied in financing the reconstruction of war damaged economies of Europe. Unless another war breaks out in the future more funds may be available for helping the development of under-developed countries which is also an important function of the Bank. Moreover, as already noted, the Bank can help indirectly as well as directly. It can promote foreign investments on the part of private individuals or foreign Governments by guaranteeing to them the return of principal and minimum returns on capital. In spite of all this, however, since the claims on the help of the Bank will be heavy we cannot expect that the Bank will be able to provide any large proposition of the external finance needed. Help under President Truman's Point Four is more of technical than of financial nature. There is a possibility of some sort of a Marshall aid for South and South-East Asian countries which the United States might think of giving on political and humanitarian grounds. Some people are rather weary of recommending the acceptance of such help. They are afraid of the "political or economic strings" being attached to such help. We believe that with normal caution such help should be welcomed. America has extended such help to Europe which has led to remarkable recovery in the economies of those countries. Great Britain has been the chief beneficiary. We fail to see how Great Britain or any other European country has lost its political or economic integrity. The real fact is that the United States can afford such help and it is as much to her own interest as of the beneficiary countries that living standards should be raised under-developed countries. Unless these countries

of India. Unfortunately, all the Jute Mills were concentrated near Calcutta and went to India. Jute has to be baled in special presses before it can be transported over long distances. The Government, therefore, concentrated, first, mainly on the expansion of the country's Jute baling capacity. Orders were placed for eight presses with firms in the United Kingdom and five in the United States of America. These presses with a total baling capacity of 2 million bales have been purchased. The question of placing further orders for five more is being actively considered. These will have a baling capacity of 600,000 bales. At present there are over 30 baling presses in Pakistan with baling capacity of 15,00,000 bales. With the implementation of the present plans the baling capacity will increase to over 40,00,000 bales.

As regards the establishment of Jute Mills three mills with a capacity of 1,000 looms each will be set up soon ; 2,100 of these 3,000 looms will produce hessian and 900 will manufacture bags. With double shift, the former will produce 16,00,00,000 yards per annum, and the latter 20 to 22 thousand gunny bags a year. If the loomage reaches 6,000 the internal requirements for gunny bags could be satisfied. It is expected that the first Jute mill will go into operation by the middle of 1951, the second by early 1952 and the third in 1953. These three mills will cost Rs. 6·5 crores including buildings and machinery. Half of the money will be provided by Mr. Abdul Wahid Adamji and the other half by the Central Government. Machinery for these mills has already been ordered. Preliminary steps to acquire land and clectricity have been completed and building work has started.

In response to Government's promise to give assistance to private enterprise two industrialists have come forward with a proposal to start, one mill each at Chittagong. These will comprise 13,120 spindles and 610 looms and will soon begin to produce hessian cloth and gunny bags. The machinery for one of these mills has already arrived.

3. Cotton Industry. At the time of partition, while Pakistan produced about 13 lakh bales (of 400 lbs. each) of raw cotton, she had only 12 cotton mills with 1,17,000 spindles and 4,500 looms These with double shift produced every month 5,000 bales (1500 yds each) of cloth and 750 bales (400 lbs. each) of yarn. which was far from adequate and met only 10% of the requirements of the country. To meet the country's need the Government decided to permit the establishment of mills with a total spindlage of one million during the first five years and 1½ million during the next five years. This was the target set forth by the

Industries Conference. It was planned to establish five new cotton mills. as soon as possible They were to be located one at Rahimyarkhan, one at Multan, one at Lyallpur and two at Karachi.

Since then all possible assistance has been given to the promoters by Government in the way of procuring machinery, providing hard currency, help in the selection of sites and location of mills, supply of steel and building material for factories and procuring trained personnel from abroad.

The East Bengal Government also proposes to set up a large mill with 50,000 spindles.

Compared to the position at the time of partition spindlage has already been doubled *i.e.* 147,000 spindles have been installed. In addition 800 loom have been set up. By April 1951 the rate of annual production of cloth was expected to reach 1,25,000 bales compared to 74,000 bales at the time of partition. The Finance Minister in his recent (1951-52) Budget speech has revealed that Pakistan is already producing one third of its total cloth.

4. Woollen Industry. Pakistan produces 26.5 million lbs. of wool a year and imports through its land frontiers another 8.3 million lbs. There is a great demand for Pakistan wool in the world. It is used in the manufacture of tweeds, rugs, blankets and carpets. Two million lbs. of the above quantity are required for local use by the cottage industry producing rough blankets and carpets. At present there is only one spinnery with 2,000 spindles.

The Government has decided to assist in the establishment of five yarn spinneries with a total spindlage of 25,000 spindles. Two of them will be in the Punjab and one each in N.W.F.P. and Sind. They will produce 4.5 million lbs. of yarn a year. Government also intends opening finishing centres in all these regions each having two sets of raising and finishing machines. A maximum of 20,000 spindles will also be permitted to produce one million lbs. of worsted yarn annually. Permission has been accorded to two parties to set up woollen and worsted mills, one at Karachi and the other in the Punjab. These will start production very shortly.

Steps have been taken to set up two Government woollen mills one at Bannu in N.W.F.P., and the other at Harnai in Baluchistan. A mission has already been sent abroad to purchase equipment and machinery. Three private mills will be set up one each at Lawerence pur, Multan and Nowshera respectively.

By way of an experimental measure the Government has sanctioned the establishment for one year, of three woollen centres in Baluchistan, for sheep washing, shearing and grading of wool.

5. **Leather Industry.** Pakistan produces 8.11 lakh pieces of buffalo hides, 44.73 lakhs of cow hides, 53.5 lakhs of goat skins and 20.75 lakhs of sheep skins a year.

A conference of representatives of the various branches of the leather industry and Provincial and State Governments was held at Karachi in August, 1948. It made several recommendations regarding the utilisation of these raw materials, which have been receiving consideration by the Government, The Government has been sympathetically considering request for financial aid on the part of private enterprise.

At the moment in Pakistan there are two factories manufacturing footwear with the help of machinery. One located at Lahore specialises in canvas shoes and the other, located at Karachi, specialising in civilian and army footwear. During the year 1949-50 a 50% increase in production occurred in tanning of leather and in the manufacture of footwear. Successful experiments have also been made in East Bengal to start a Pakistan kips industry on the lines of the Madras E. I. Kips industry. The leather industry, it is understood, is shortly organising itself into a federation which would make the bulk purchases of the chemicals and other materials required by the various factories.

6. **Pharmaceuticals and Drugs.** Pakistan possess requisite raw materials for the production of pharmaceuticals and drugs e.g. Artemesia and Ephedra for making Santonin and Ephedrine. Government has sanctioned the setting up of a Bureau of Laboratories which is already preparing vaccines. It will soon start manufacturing sera.

A factory at Quetta is producing Ephedrine, Hydrochloride etc., and another is being shortly installed for the production of Santonin. Government is also encouraging private enterprise for the establishment of five self-contained pharmaceutical and drug manufacturing concerns—three in West and two in East Pakistan—within the next two years. These will meet the internal requirements of the country for tincture and glucose.

7. **Paper Industry.** Pakistan imports every year Rs. 3,00,00,000 worth of paper. The Government is planning to establish an up-to-date paper factory in East Bengal where raw material for paper making is found in abundance. The mill will probably be located at Kuptiamark in Chittagong Hill Tracts. Its capacity is expected to be 45 tons a day to start with but by the end of 1954 it will produce 200 tons daily. The mill

will cost Rs. 4 crores. Machinery with Rs. 3 crores has already been ordered on land for factory buildings has been acquired. Considerable quantities of equipment and machinery has already arrived and in the words of the Finance Minister (Budget Speech 1951-52) Pakistan will " by the middle of 1952 become largely independent o imports of quality paper."

8 Sugar and Power Alchohol. A 50,000 tons sugar factory is being established at Mardan (N.W.F.P.) It has already started production and is expected to reach its full target in two years' time. Permission has also been given to the Government of Bahawalpur to establish a sugar mill in the State. Question of establishing another mill in the Thal area is under consideration of the Government.

It is also intended to set up in N.W.F.P. a distillery for the manufacture of power alcohol with a capacity of producing 10,000 L P. gallons per day. A power alcohol plant is also being established in East Bengal. At present industrial alcohol and liquor are being produced at two places. One factory is located at Rawalpindi and the other in East Bengal. In addition there are two other small distilleries one of which is at Kotri in Sind and the other at Quetta in Baluchistan.

9. Vegetable Oils Industry. Recently two factories have been established for hydrogenation of edible oil with a capacity of 3,000 tons each. One of them is in Karachi and the other at Hyderabad (Sind). The factories will make the country self-sufficient in 'Vanaspati' cooking medium. To these will be attached delinting and dehauling plants for refining cotton-seed oil used in the manufacture of 'Vanaspati'.

10. Sosp Indusfry.—Pakistan is self-sufficient in washing soap because of the 812 big and small factories producing this article. For toilet and medicated soap, however, we depend upon foreign countries. Efforts are now being made to make Pakistan self-sufficient in these too. One plant for manufacturing toilet soap has already been set up at Karachi. Another is soon to be installed at Bahawalpur.

11. Engineering Industry.—The various engineering concerns that existed in the Pakistan areas had to stop production after partition due to the migration of the Hindus. These have now all started their work and achieved pre-partition level of production. Among the firms already established are : one firm manufacturing electric lamps and electric conduct pipes ; two firms manufacturing battery plates for lead acid accumulator cells, one firm manufacturing welding electrodes ; one firm

manufacturing vacuum rubber fitting for railways; one firm producing hurricane lanterns in West Pakistan; and one firm manufacturing baby cars and toys from tin-plates. Other existing engineering firms manufacture common agricultural implements like sugarcane and oil crushers, oil expellers, lathes, chuks and other machine tools, precision instruments, surgical instruments etc.

Industries that are soon expected to be established are: Steel smelting, malleable iron foundry: re-melting and re-rolling (E. Pakistan), production of hurricane lanterns from brass, complete storage batteries, electric necessaries from plastics, fabrication of C.I. pipes, electric fans etc.

The recommendetions of the U. S. A. Steel Mission have been carefully examined by the Government and steps are being taken to implement them.

12. **Shipbuilding and Ship-repairing.**—A meeting of the Industrial Advisory Committee on Shipbuilding was held on 28th June, 1949 at Karachi. All the members were unanimously of the view that a modern dry dock should be installed at Karachi at an early date. Three sub-committees were appointed to examine and report on (*a*) the advisability of providing a floating dock till such time as a dry dock is constructed, (*b*) fixing of industrial targets for the next five years and provision for training of technical supervisory staff and (*c*) finding ways and means of ensuring regular supplies of raw materials etc.

13. **Mines and Minerals.**—Mineral resources of Pakistan are under investigation by a team of geologists and schemes for their scientific exploitation are being worked out. Pakistan lacks coal, especially good quality coal, and has to depend on imports. For systematic development of coal resources the Government obtained services of Messrs. Powell Duffryn Technical Services Ltd., of London. They surveyed Pakistan's coal resources. They inspected the Punjab, Baluchistan and Sind for this purpose and took samples for analysis in their laboratory in England. Their recommendations aiming at more efficient coal mining in Pakistan have been accepted by the Goverment and have been already enforced in the Punjab and Baluchistan.

A scheme to develop the Sharigh Coal Mines in Baluchistan costing about Rs. 7 lakhs is being executed. In addition to the existing briquetting plant at Quetta two more plants are going to be set up one in the Punjab and the other in Baluchistan.

Brown coal and lignite has been discovered in East Bengal scattered over an area of 170 square miles in Mymensingh

and also at Habibgunj in Sylhet. This coal is reported to be good enough for household consumption and for use in stationary boilers in factories. Investigations are continuing.

As regards oil we have the old-standing Attock Oil Company operating at Khaur, Dhulian, Joya Mair and Balkassar in the Punjab This company produced 4,25,543 barrels of crude oil in 1949 (1,48,94,000 gallons imp.) as against 3,30,082 barrels in 1947.

New drilling operations have been carried on by Burma Oil Company (Pakistan concessions) Ltd, at Chakwal (in the Punjab) Lakhra (Sind) and Patharia (East Bengal). In Chakwal it drilled three wells one of which had to be abandoned. The No. 2 well struck oil at 8,214 feet and No. 3 now stands at the depth of 4,500 feet. The well at Lakhra reached 8,000 ft. in depth, where the company struck gas. The operation have however been abandoned.

The Burma oil Co., is the first Oil Company to be incorporated in Pakistan in accordance with the Pakistan (Production) Rules of 1949. 30 % of its share capital has been offered to Pakistans for subscription. The company hold mining lease for the Patharia forest regions of East Bengal. They have also applied for a prospecting licence for an area in Baluchistan extending over on area of 176 sq. miles. The Government is considering this application

Among the other important minerals are salt and gypsum. Salt is in great abundance in Pakistan and is of very superior rock variety. Gypsum is also found in large quantities. Other minerals of Pakistan are nitrates, potash, and chromite found in good quantities Antimony, copper, lead and sulphur are also found and so are glass sands available. Pakistan will soon build her chemical industries on the basis of these minerals.

14. Chemical Industries —Among these may be mentioned Acid Industry, Alkali Industry, production of Industrial Gases, Ordinance Factories, Ammonia and Ammonium Sulphate production, etc.

Two 10-ton a day sulphuric acid plants are going to be set up. One has already started production at Karachi. The second is expected to come into production soon in the Punjab. Another plant is to be established East Bengal. Two small units are already producing sulphuric acid by chamber process one at Rawalpindi and the other at Sukkur. The capacity of the former is 300 tons and the latter 30 tons per year. It is expected that in a year's time Pakistan will become more than self-sufficient so far as sulphuric and allied acids are concerned,

A large factory producing soda ash had to stop work on account of migration of Hindus and lack of supply of coal and necessary iron and steel. This has resumed production since December, 1948. It produces light soda ash at the rate of about 20,000 tons a year. The Government is going to set up a 10-ton a day capacity plant to produce caustic soda chlorine by the electrolytic process. A 5-ton a month plant will also be set up to produce chlorine and caustic soda to meet the needs of Karachi.

Factories producing industrial gases like oxygen, acetylene, carbon dioxide etc. which closed after partition have now resumed production. A new factory is being established at Karachi for production of oxygen and acetylene.

To meet the requirements of the armed forces, ordinance factories are going to be established in the very near future. Around these factories numerous chemical industries will grow which will help industrialisation of the country.

The Government has decided to set up an Ammonium Sulphate plant in West Pakistan which will produce about 1 lakh tons of Ammonium Sulphate a year for supplying fertilizers for agriculture. Experts were invited from Belgium, U.K. and U.S.A. to survey conditions and advise about processes to be adopted and the type of plant to be set up. Their reports are under examination by a specially oppointed officer for this purpose.

15. Motive Power.—The main motive power available to Pakistan is water power. Various schemes of hydro-electric development are being executed in various parts of the country. We have already made a detailed study of these in a previous chapter. Here we may mention them again. These are : (*a*) Rasul Project in the Punjab will generate 14,000 K.W. by the end of 1951. (*b*) Mianwali Project will yield 65,000 K.W. of power when it is complete. (c) The Malakand Project (N.W.F.P) will generate 10,000 K.W. to start with but will double it in two years. (*d*) Dargai Scheme will give 20,000 K.W. of hydel power. (*e*) The Warsak Scheme when completed (by 1951—54) will yield another 100,000 K.W. (*f*) The Karnafully Project of East Bengal will generate 40,000 K.W. of electrical energy.

In addition to these hydro-electric projects the Government has plans to establish thermal power stations all over the country. The capacity of the Karachi Power Station will be expanded to 30,000 K.W. during the current year. Plants will also be set up in Sind, the Punjab and East Bengal. A thermel

station generating 10,000 K.W. will be located at Chittagong. It will be linked up with the Hydel Power Station on the Karnafully.

16. Conclusion.—The above survey of the Government's Industrial plans shows that almost every kind of industry has received attention—textiles, leather, paper, sugar, chemical, engineering, minerals and hydro-electric etc. But most of the work so far done is merely preparatory. Except in the case of certain units which stopped work due to partition and have resumed it now, in the matter of new industrial establishments, we are mostly at the stage of proposals and plans. In some cases work has actually started and in others machinery has been ordered and partly arrived as in some hydro-electric schemes, in Jute presses and one or two Jute mills. But in majority of cases the plans have not reached the stage of execution. The development on the whole has not come up to the standards indicated by the target accepted at the first Industries Conference (See appendix to this chapter) to take only one important example, out of a five year target of one million spindles for textile industry only 20,000 hava been added in three years.

17. Reasons for Slow Development.—To some extent this development is not to be wondered at. We have already discussed in an earlier chapter the various handicaps with which the new state made a start and many of them still continue after three and a half years of its establishment. Initially the attention of the Government was diverted to tremendous problems arising out of the partition. The influx of the 70 million refugees alone would have shaken the foundations of a much stronger state. Then there was the paralysis caused to our economic life especially in the Punjab on account of the exodus of non-Muslims who held key positions in administration, industry, trade and business in general. Over and above this, was the defence problem made acute by the uncertainties of the political and military developments in Kashmir. The tension with India and Afghanistan has naturally kept the problem of the security of the state all the time in the foreground.

Apart from these there have been certain basic factors (already discussed) which have acted as bottlenecks to development. The paucity of important minerals like iron and coal and dependence for them on unsympathetic India, lack of trained management and technical personnel, shyness of Pakistan capital in the matter of investments in industry, the hesitancy on the part of foreign capital to come to the country's aid, the

difficulty of getting machinery and other necessary stores in view of the great demand for them on the part of the war-shattered economies of Europe : all these factors have played their part arresting the pace of our industrial development.

18. Necessity of Reorganisation.—But in spite of all these limitations, we believe more could have been achieved. From the study of what has actually been done regarding planning the programme and its execution, one gets the impression of a lack of proportion and perspective. The approach has not been scientific and systematic. Here and there some industrial lines have been selected for help and too much reliances has been placed on the initiative of private enterprise. A more direct and vaigorous participation in industry by the state is necessary. We are glad to notice that the Government has assumed direct responsibility for the development of 27 major industries under the Federal Control of Industries Act, 1949. Further, under the Regulation of Mines and Oil Fields Development (Federal Control) Act of 1948, the Central Government has taken the responsibility of granting concessions in its own hands for seven major industries. Advisory Committees have been set up. For giving financial assistance to industry an Industrial Finance Corporation and an Industrial Development Corporation have been established. There is a Geological Survey Department and Statistical Organisation. The Government has also given tax concessions to encourage industrial enterprise. These steps are all to the good.

We would, however, suggest a more comprehensive central control and direction. We would recommend a thorough reorganisation of the machinery of planning and development. We started with a Development Board which from March, 1948 under the Ministry of Economic Affairs. The function of the Board is to approve schemes of development submitted to it by the provinces. Neither the Board nor the Ministry of Economic Affairs has any initiative of their own in such matters. The Ministry has no powers to axecute its own decisions. It has to depend for both on other agencies and departments. The functions of the "Ministary of Economic Affairs" like its name are vague and undefined. Every conceivable thing with an economic bearing can be brought under its jurisdiction, thus deviating it from its proper function which should be solely concerned with the preparation and execution of economic plans. On the other hand, some functions which should be allotted to this Ministry are allocated to other ministries. For instance, certain officers dealing with the problems of industrial development are put under the Ministry of

Commerce. A more scientific organization of development work is indicated. The Government has set up an Economic Council to implement the newly announces Six Years. Plan of Development. Details of this organization are not available. But the Council alone can hardly supply the necessary machinary for detailed Planning and execution Even the Six Years Plan needs detailed elaboration. We are glad to not however, that a Planning Commission has been recently set up.

19. The Shape of Recorganisation.—We suggest that the Ministary of Economic Affairs should be converted into a Ministry of Economic Planning and Development. All matters not strictly germane to the function of economic planning and development should be taken away from this Ministry and transferred to other relevant departments The various institutions and departments which prepare the basis for planning should be under the jurisdiction and control of this Ministry. The Geological Survey, the Statistical Organisation, and the various institutions dealing with economic and industrial research should serve as hand-maids to Ministry of Economic Planning and Development As regards the technical aspect of planning the Ministry should be advised by the newly set up Planning Commission Let us hope it will be carefully constituted Some members of this Commission should be whole-time paid officials and others should be co-opted for specific purposes and issues from among the official and non-official talent available like industrial magnates, bankers, representatives of labour, technical experts like engineers and chemists

The work at the Centre should be co-ordinated with the work in the provinces. Each province should have its own Planning Committees The provincial plans should be submitted to the Central Commission. After proper co-ordination under the guidance and control of the Centre these plans should be approved in the form of an All-Pakistan Development Plan.

In the execution of the plans reliance should not be put entirely on the provinces. The provincial administrative and technical machinery should be utilised for execution but the supervision of the Centre should be constant. The Centre should see that the targets fixed are achieved during the allotted period in the central as well as in the provincial sphere.

The Planning Commission in consultation with the provincial planning committees will have to fit in their plan all the various aspects of the economy giving in details the various stages through which and the manner in which the plan will have to be executed.

They will pronounce on questions like, the period of the plan, the ultimate targets of production, the annual targets of production, the production units and their location, arrangements regarding supply of raw materials, finance, industrial control and organisation, the problem of marketting, the position of small scale and cottage producing units, the degree of mechanisation, the degree of direct Government enterprise as against private enterprise, machinery for price control, control of private profits etc.

In all matters the ultimate sanction will rest with the Central Government. In case there is disagreement in matters of policy between the provinces and the Centre the latter must have its final say. For all practical purposes the technical advice of the planning Commission will be final though formal approval of the Government will be necessary.

Planning has been a success in other countries and there is no reason why it should not succeed in Pakistan provided we are clear as to what we possess, what we wish to achieve and how we wish to achieve it.

APPENDIX TO CHAPTER XV.

INDUSTRIALISATION OF PAKISTAN

(Recommendations Forwarded to Centre and Provinces)

Pakistan, being very anxious to give its economy an "Industrial bias," called the Pakistan Industries Conference in Karachi from December 13 to 17 last. The Conference had set up various committees to report on the prospects of various industries. These committees have now finalised their recommendations which have been forwarded to the Provincial and State Governments and the various Ministries of the Central Government to enable them to take necessary steps for implementations. As the recommendations cover a vast field they require examination by the various authorities both Central and Provincial.

Hydro-Electrics.—The Industries Conference has recommended a priority for Hydro-electric power generation to 5,00,000 kilowatts in the next five to seven years as Pakistan is short of coal and the development of the industries depends upon power. It has recommended that while the Mianwali Hydel Project in the Punjab, capable of generating 26,000 kilowatts, and the Karnafulli Project in the East Bengal, capable of generating 60,000 killowatts, should be taken up immediately and completed within the shortest possible time, the Rohri and Nara Canal Projects in Sind should be taken up now and completed as soon as possible. It has been suggested that steps should be taken to generate 9,000 kilowatts of power at Dargai in Malakand Agency and preliminary investigation as regards suitability of the possible sites of Warsak on the Kabul River (estimated to generate 80,000 kilowatts) and the Indus (estimated to produce one to two lakh of kilowatts) should be undertaken immediately.

Coal.—Regarding coal-mines and the utilisation of coal the Pakistan Industries Conference has recommended that every effort should be made to exploit the present coal-mines in a scientific manner and the target of half a million tons per annum of coal should be reached during this year.

New coal-bearing areas should be surveyed and urgent steps taken to develop them.

Other Minerals and Oil.—The recommendations had it that more up-to-date technique evolved in recent years should be adopted for carrying out the survey of mineral resources of the Dominion. Services of organisations in the United States

of America, which have long and varied experience of such work, should be indented upon and a competent geophysicist should be appointed on the staff of the Geological Survey of Pakistan.

Two testing laboratories—one in Eastern and the other in Western Pakistan—should be established. Till these laboratories are established, the Naval Laboratories at Keamari in Karachi should be utilised for analysing not only oil and petrol but also coal.

A school for training in drilling should be opened immediately and a Mining School also at a very early date.

The young men, who were till recently undergoing training in Dhanbad, should be deputed to the Royal School of Mines in the United Kingdom to enable them to complete their studies and place their services at the disposal of the State and the people of Pakistan.

The mineral development wing should be strengthened by the appointment of experienced mining engineers and closer supervision should be maintained on the activities of prospectives and lessees.

Utilisation of minerals found in Pakistan should be given precedence over export of such minerals. Of oil the Conference recommended that the removal or reduction of customs duty on fuel and diesel oil used for industrial purposes and reduction of freight rates charged on transport of oil should be sympathetically considered.

Cotton Industries—For the development of cotton and textile industry the Conference recommended that a Pakistan Cotton Committee should be established for the purpose of improving the cultivation, marketing and manufacture (including ginning and pressing) of Pakistan cottons, on the lines of Indian Central Cotton Committee.

The Pakistan Cotton Committee should draw up a scheme for the distribution of pure and improved seeds in collaboration with the Provincial and State Departments of Agriculture. The staff that is already employed in connection with the schemes of the Indian Central Cotton Committee should be retained and pending arrangements with that Committee regarding the levy in Pakistan of the cotton cess imposed under the Indian Cotton Cess Act, the staff should be paid by the Government.

To finance the activities of the Pakistan Cotton Committee a cotton cess of eight annas per bale of cotton to be imposed, is another recammendation.

The Government should examine the possibilities of improving the marketing and financing of cotton produced in Pakistan through an agricultural credit bank on the lines of those which exist in America, with a view to ensuring fair prices to the growers.

Other recommendations for the development of cotton in Pakistan are: Pakistan should have its own standards of staples; mixing of staples should be prohibited by legislation; and the preparation of standards should be done by the Central Government on the advice of the Pakistan Cotton Committee and arrangements should be made for the fixing of grades.

Textiles.—Regarding textiles, the conference suggested that a target of productive capacity should be fixed at 2 5 million spindles which should be reached in ten years—one million spindles during the first five years and the remaining 1.5 during the next five years

The one million spindles to be installed during the first five years should be destributed as follows:

The Punjab	3,50,000	Spindles
East Bengal	3,60,000	"
Sind	2,00,000	"
N. W. F.P.	50,000	"
Bahawalpur State	57,000	"
Khairpur State	25,000	"

Fifty per cent of the spindles allotted for East Bengal and 25 per cent. of those allotted to other provinces and states should be left uncovered by looms so as to provide yarn for handloom industry.

The mills, established under the plan, should be designed to produce cloth and yarn of different varieties and counts in the following proportions :

East Pakistan—fine and superfine 10 per cent., medium 50 per cent., and coarse 40 per cent.

During the interim period before the textile industry has been finally established efforts should be made to import the yarn required to feed the handloom industry.

Jute Industry.—For the development of the jute industryin Pakistan it was suggested that a *Pakistan Jute Research Institute* for the improvement of cultivation of jute, propagation of pure seed and research on jute fibre, should be established at Dacca with the help of a central grant, and after the jute research institute has been established a pilot plant should be set up.

Thirty lakh bales of jute per annum should be earmarked for export to foreign countries. Fair prices should be maintained by regulation of the jure crop and by adopting other suitable devices.

Encouragement should be given to the establishment of additional jute presses which would enable the export figure of 30 lakh bales of jute to be reached by 1950-51. The possibility of using the surplus cotton baling presses in the Punjab for baling jute should be investigated.

In order to increase substantially the size of the exports from the Chittagong port, additional facilities like jetties and godowns should be provided at the port and the highest priority should be given for the supply of steel and other building materials for this purpose.

Necessary measures should be taken for the acquisition of land for the jute pressing factories.

Power for Factories.—The schemes to provide 4,000 kilowatts at Chittagong should be pushed ahead at the maximum possible speed, so as to provide power for the jute pressing factories and other industries in East Bengal.

First priority should be given to making steel and building materials available at controlled prices for presses which are proposed to be established in East Bengal.

During the next ten years establishment of jute mills having a total loomage of 15,000 should be aimed at.

Early steps should be taken to provide adequate power at Chandpur to help in the establishment of jute industry there and in view of the scheme for the generation of power at Narayangunj and Chittagong for the establishment of the jute mills at these two places should be encouraged.

The possibility of taking advantage of the opening of two mills of 500 looms each, which have been offered to industrialists in Pakistan and which can go in production in 2½ years should be fully explored.

Co-ordination Between Centre and Provinces.—It is recommended that the planning and co-ordination of 27 Industries (which include the industries for the production of arms, cement, coal, electrical equipment, glass and ceramics, heavy chemical industry, iron and steel, marine fisheries, paper and pulp, rubber manufactures, sugar, salt, textiles and tobacco) should devolve on the Centre and the implementation and

execution of the plans for the development of the 27 industries should rest with the provinces and states.

Distribution of Units: The following distribution of units between the different areas was recommended by the conference.

Starch Factories: The Punjab two N.-W. F. P. one and Sind one.

Woollen Spinning: N.-W. F. P. one; the Punjab one; Baluchistan one; Bahawalpur one ane Sind two. (For spinning woollen yarns to be utilised for carpets, rugs, blankets and several cottage industries).

Woollen Textile Mills: The Punjab one and N.-W.F.P. two.

Oil Pressing Mills: The Punjab two and the extension of the existing mill in Bahawalpur.

Oil Refining and Hydro-generation Plant: The Punjab three and the extension of the existing plant in Bahawalpur.

Caustic Soda Electrolytic Plant and Causticising Plant: One each in the Punjab, N.-W.F.P. and East Bengal.

Soda Ash Plant: Karachi and Khewra one each.

Sulphuric Acid Plants: One each at Chittagong; the Punjab (at Khewra); Karachi; N.-W.F.P. at Kalat.

Super Phosphate Plants: One each in the Punjab; Sind, Bengal, N.-W.F.P. and Bahawalpur.

Paper Factory: One in East Pakistan.

Match Factory: One in East Pakistan.

Tanneries: Ten in East Pakistan; two in the Punjab; and one each in Sind, N.-W.F.P. and Bahawalpur.

Cement Factories: One each in the Punjab; Kalat State and the N.-W.F.P.

Glass Factories: One unit of hollow are each in East Bengal; the Punjab; N.W.F.P. and Sind. Two units for bangles in Western Pakistan and one unit of sheet glass in the Punjab.

Sugar Mills: One each in the N.W.F.P. and Bahawalpur State; two in the Punjab four in East Pakistan.

Soap and Glycerine Manufacturing Factory: One each in the Punjab and Bahawalpur State.

Manufactures of Drugs from Medical Herbs: One in N.W.F.P.

Tobacco and Cigarettes: N.-W.F.P., the Punjab and East Pakistan should have one factory each.

Ship Repairing: One workshop and dockyard each at Chittagong and Karachi.

Machine Tools: A factory each at Gujranwala (West Punjab); Sialkot or Wazirabad (West Punjab) and Karachi.

Heavy Oil Engine Industry: One each in the West Punjab and Sind.

Iron Castsng Foundry: Two in Sind.

Steel Casting Foundry: One in Karachi and one in Chittagong.

Steel Forging Factories: One at Chittagong and another at Saidpur.

Malleable Iron Factory: One each in the West Punjab and Sind.

Electrical Furnaces: One in Sind.

Agricultural Implements: One Factory in the West Punjab or Sind; one in East Bengal and two in the N.-W.F.P.

Bicycles and Parts: One factory in the West Punjab.

Sewing Machines: One factory in Sind; one in East Bengal and the expansion of the existing factory in Lahore.

Electrical Equipments: (Electrical motor, fans, power transformers and switch gear): The West Punjab one factory and another in Sind.

Small Tools and Wutting Tools: One workshop near Machi tool manufacturing centre.

Fertilizer Factory: It was further suggested that the Government of Pakistan should have the question regarding a fertilzer factory for the manufacture of ammonium sulphates and other allied fertilizers from gypsum, which was available in large quantities in the salt range in the West Punjab, examined by an expert committee.

Standardisation: With regard to standardisation the Industries Conference recommended that a Pakistan Standards Institution be set up for the purpose of eliminating unnecessary, uneconomic and inefficient standards; selection, determination and formulation of proper standards compatible with economy and efficiency and unification of designs and make-up. Products required testing by an independent laboratory with sub-laboratories for the following industries which should be established in Western Pakistan with a branch in Eastern Pakistan.

CHAPTER XVI

FOREIGN TRADE

Prepartition Trends.

1. **Introduction.** A study of the foreign trade of a country can be very instructive to the student of its economic conditions and problems. The proportion of foreign trade to home trade reveals the degree of self-sufficiency attained by the country concerned in matters of essentials of life. The types of exports and imports give an idea of rhe stage of economic development reached and the broad features of the social and political structure of the land. The sources of imports and destinations of exports indicate its economic connections and (some times) political affliations. Trends of trade over time reflect the impact of major social, political and economic changes occurring in the country itself or in the other countries of the world with whom it has trade relations The tariff impositions, their rates and discriminations in this respect throw a further light on the fiscal, economic and political policies pursued by its Government at a particular time.

Before we undertake a review of the main features of the foreign trade of Pakistan it would be instructive to give a brief account of developments in this connection during the prepartition times. Since, until the creation of Pakistan Indo-Pak was one economic and political unit, we shall review historically the main features and trends of trade in India as it was before partition was effected.

2. **Pre-Muslim Period.** Trade connections of India with foreign countries can be traced from very early times. India had trade with Babylon as long ago as 3000 B.C. Egyptian mummies of 2000 B.C. were discovered wrapped in India muslin. Dacca muslins had reached ancient Greece where they were called "[illegible]" (after the Ganges). India also traded with [illegible] d Arabia.

Due to difficulties of transport India (as other countries of those times) imported and exported only goods which had high value in small bulk. Traders of the times only catered for the tastes of the few and very rich persons and [illegible] in articles of luxury. Among the articles of export f

times were high quality textiles, metal ware, ivory, perfumes, dyestuffs and spices. The imports consisted of such commodities, as brass, tin, lead, wine and horses. India mainly imported essential raw materials and exported luxury goods manufactured by its artisans.

3. **The Muslim Period.** The Muslim conquest of the country gave a considerable impetus to her foreign trade. This new influence may be dated from the 11th century onwards. After the early period of unsettlement was over, the new rulers established regular economic links with the outside world. The communications established through the north-west frontier stimulated over land trade which mainly followed two routes *i e.* Lahore to Kabul and Multan to Kandhar and beyond. The system of transport by road in the country was established by the Muslim kings especially the Moghals and the internal water ways were made better use of. Further the patronage of the court stimulated production of high quality goods by the local handicrafts. The shipping trade was mainly in Muslim hands especially on the Malabar Coast and partly the also trade in the Gulf of Cambay and of the Coromandal coast. Calicut was the principal port on the Malabar coast through which passed the entrepot trade in goods from Far East and the Red Sea.

As regards the character of the trade it remained about the same as in earlier centuries; chief imports being goods like gold, horses and essential metals like copper, tin, zinc and lead etc. In return India exported textile fabrics, dyestuffs like indigo, opium and other drugs (1).

In the meantime at the end of the 15th century an event of great importance for trade between East and West took place. An all sea route to India *via* the Cape of Good Hope was discovered. Upto that time the trade with Europe had to follow the sea route through the Indian Ocean and the Red Sea, and then the goods were carried by land over the Isthmus of Suez, and then again through water over the Medeterranean. The new route was discovered on account of the Portuguese quest for a sea route to India.

For almost three centuries after this event there were rivalries between the European Countries, Portugal, Holland, England and France to capture the lucrative trade with India and beyond.

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(1) For further details see, Moreland : *India at the Death of Akbar.*

The European traders got concessions from the Muslim rulers and established what were called their 'factories'. These were centres where goods were collected before they were exported or sent into the interior as the case may be "Through the negligence of Subedars and their officers," writes Abul Fazal in his Aynee-Akbari, "several of the Sirkars are in the possession of the Europeans, amongst the number are Mummun, Surjaun (St John) Tarapoor, Mahuna and Bussy (Bassien) which are cities and Emporiums"

4 **The East India Company** The rivalries between the European traders ultimately resulted in the elimination of all but England as far as the trade with India was concerned The last rival, France, was eliminated after its defeat in the Seven Years War. Thus it was that the British company The East India Company succeeded in establishing not only its monopoly of trade with the East but also in due course its sovereignty over what later came to be known as British India

In the early years the Indian trade of the East India Company was not popular with certain people in England. The East India Company imported Indian calicoes and spices for which there was a great demand in England In return England exported specie to India The main staple industry of England before the Industrial Revolution was woollen industry for the products of which there was little demand in India Hence the opposition This agitation grew stronger as the 18th century advanced and as a result high and prohibitive import duties were imposed on Indian textiles It was the same pressure that compelled the East India Company to reverse its policy of encouraging Indian industries The rising cotton textile factories in England in the 19th century gave a further justification to the new policy which soon converted India into a producer of raw materials for Britisn factories and a market for their finished products This meant a complete ruination of Indian handicrafts and increased pressure on the already overburdened agriculture

In the hands of the East India Company the foreign trade of India increased considerably. At the beginning of the 18th century the total value of exports, from India was estimated at about £1,000,000, by 1834 the value of exports had exceeded £8,000,000 This latter figure, however, includes trade by private European merchants since from 1815 private trade was opened to such merhants

If is, however, the change in the character of trade rather than its value that is most significant To take one important

item—cotton piece goods, the new trend is indicated by the following figures.

Cotton piece goods imported into England from India :—

1814	1,266,608 pieces.
1821	534,495 ,,
1828	422,504 ,,
1834	306,086 ,,

British cotton manufactures imported into India.

1814	818,208
1821	10,138,720
1828	42,822,077
1835	51,777,277

This process continued durlng the rest of the century until by the last quarter the Indian handicarfts, with very few exceptions, were entirely ruined. The main exports consisted of raw materials like cotton, jute, oil seeds etc. and planlations products like tea and coffee. In return India imported manufactures especially the cotton manufactures produced by British factories at Lancashire.

5. Foreign Trade from 1864 to 1914. During this period the foreign trade of India increased by leaps a bounds. The following Quin-quennial averages clearly make this point.

In crores of rupees.

Quin quennial average.	Impor:	Exports.	Total.
1864-65 to 1868-69	31.70	55.86	87.56
1874-75 to 1878-79	38.36	0.32	98.68
1884-85 to 1888-89	61.51	88.64	150.15
1894-95 to 1898-99	73. 7	107.53	181.20
1904-05 to 1908-09	119.85	165.44	285.29
1909-10 to 1913-14	151.67	224.23	375.90
Percentage increase over the period.	375.2%	301.4%	329.3%

Various factors were responsible for this great increase in foreign trade, Among these were. (*a*) Establishment of peace and security within the country, (*b*) improvements in the means of communications and transport in and outside the country (*i*), through extension of railway and roads (*ii*) opening up at the Suez canal. (*iii*) Establishment of post and telegreaphic communications. (*c*) Improvements in naval architecture and rapid growth of mercantile marine fostered by various countries.

Under the new circumstances it became possible to trade in goods of large bulk and comparatively small value. India

Exported food stuffs like wheat, rice and tea, raw materials like cotton, jute, oil seeds, hides and skins in fairly large quantities. The imports were manufactures such as cotton piece goods, machinery, hardware railway material, glassware.

Originally most of Indias' trade was with England. As time went on the country began to trade with other countries as well. The trade with U.S.A., Japan and Germany became important by the time the World War I broke out. The British, however, still dominated. This was quite natural due to the political advantage enjoyed by the ruling power, the initial start achived by it, investment of British capital in railways and their management by British companies, Britssh control of shipping and banking, establishment of British Trade Organizations in the country, like export houses, and chambers of commerce etc.

This supremacy of the British, however, began to be challenged in the closing decades of the last century, first by Germany and later by Japan after the Russo Japanese War. The new nations took several steps to develop their trade with India. They developed their own shipping services, established branches of their national banks in India and opened up than commercial houses in centres of trade like Bombay and Calcutta The U.S.A. did not begin to make direct efforts to promote direct trade with India until after the outbreak of World War I.

The foreign trade of India grew enormously during the 50 years previous to the outbreak of the 1914 War as we have seen. The growth, however, was not uniform as we look into annual figures of trade. Upto 1873 exports increased heavily especially between 1864 to 1869 due to the American Civil War which created great demand in England for the Indian cotton. Imports of cotten piece goods however were cheeked due to shortage of cotton in England. Between 1873 and 1900 the trade developed comparatively showly due to uncertainties of exchange, the famines of 1876-78, 1895-96 and 1899-1900 and visitations of plague in 1896 and 1899. Trade expanded remarkably during 1900 to 1914 especially after 1905. The main reasons were, the stablised condition of the rupee, expansion in public works like railways and irrigation and the absence of famines or plague. Further Germany and Japan made vigorous efforts to expand their trade with India.[1]

6. **The World War I (1914-18).** The War gave a serious set back to the foreign trade of India. Exports, however, recovered

1. For detailed study read P. Ray. Foreign Trade of India.

from 1916-17 onward, though imports lagged behind the pre-war years even in the year 1918-19. The reduction in volume[1] was even greater than that in value due to the abnormal rise in prices during the War. Thus in value imports fell from £127 million in 1914-15 to £125.7 million in 1918-19. In volume, however, the fall was from £127 million to £46.9 million. As regards exports while value showed an increase from £166 million to £170.2 million during the period, volume showed a fall from £166 to £113.5.

The causes of this set back were cessation of trade with enemy and enemy occupied countries, reduction of trade with allied countries due to their preoccupation with War; restrictions on trade with neutral countries to prevent munitions reaching the enemy; sharp rise in freights, dislocation of foreign exchange, insecurity of the sea.

Exports on Government account, however, were stimulated on account of demand for war materials, sand bags, boots and other apparel for soldiers, etc. The gap in imports was partly closed by goods coming form Japan and U.S.A. This led to some changes in the direction of trade.

A welcome feature of war time trade was the greater percentage of manufactured goods in Indian exports. This rose from 22.4% of the total in 1913-14 to 36.6% in 1918-19. Indian industries like cotton, jute, leather, steel and iron received artificial stimulus. Full advantage of the situation, however, could not be taken on account of the shortage of machinery and other essential stores which could not be imported in adequate quantuties.

7. The Inter-War Period 1919—1939. A trade boom followed the War because of the removal of war time restrictions and resumption of normal intercourse among the nations. There was a brisk demand for Indian produce on the part of Western countries whichwere reviving their industries. Soon, however, the markets of India's best customers Great Britain, U. S. A. and Japan were glutted with Indian produce. The resources of the Central European countries were shattered by the War. The rains in 1920 in India were unsatisfactory; there was a severe crisis in Japan; the Indian Government failed to stabilise the rupee at 2s gold. Hence the slump in exports, which after rising to Rs. 336 crores in 1919-20 fell to Rs. 248 crores by 1922-23.

1. To compare changes in volume the imports and exports for 1918-19 are expressed in prices of 1913-14.

The imports, however, expanded rapidly due to pent up demand during the War being released : orders for machinery etc , given earlier began to pour in, high exchange also gave stimulus to import. Imports thus increased from Rs. 221.7 crores in 1919-20 to 347 crores in 1920-21 and gradually came down to Rs 246 crores in 1922-23 and Rs 237 crores in 1923-24. As a result the balance of trade which was almost always in favour of India and was as high as +114.3 crores in 1919-20 came down to −79 8 in 1920-21 and −33 9 in 1921-22.

Trade recovered after 1922-23 especially the import trade. Conditions improved steadily until 1929-30 The favourable factors were progressive stabilization of European currencies, improvement in the credit position of the Central European countries, settlement, though temporarily, of the question of Reparations under the Dawes Scheme of 1924 This revived Indian trade with Europe In the country the harvests were good and exchange comperatively stable.

From 1929 onwards the world trade was seriously affected by the economic Depression the repercussions of which continued right up to the octbreak of the World War II in spite of temporary recoveries in some years. The immediate cause of the depression was the crash in the New York Stock Exchange (The Wall Street) which initiated a general fall in prices which ultimately enveloped the whole world in a depression. Behind this crash were several other factors which really contributed to the Depression. Among these were . Maldistribution of gold in the world which starved countries outside France and America of their central reserve and forced on the central banks policies of deflation , over production of agricultural goods due to application of science to agriculture, political troubles, policies of economic self sufficiency adopted by several countries etc. Hence belateral agreements, tarif barriers and quota systems The result was a serious set back to international trade. India was naturally affected as a part of the world trade system. Since the depression affected agricultural countries more severely, India, being an exporter of agricultural raw materials, had to bear the additional brunt of the depression on this account also On account of the reduced purchasing power of the agricultural masses their capacity to buy foreign goods declined which affected the import trade. The value of exports had fallen to Rs. 237 crores in 1923-24. There was a revival to Rs. 263 crores by 1928-29. The Depression again reduced them to Rs. 163 in 1930-31 and to their lowest point of Rs. 117 crores in 1933-34. After this they gradually revived with a set back

during 1936 37, until they stood at Rs. 169 crores in 1939-40. As regards exports, after the low figure of 1921-22 (Rs. 248 crores) the figure revived to Rs. 400 crores in 1924-25, fluctuated between Rs. 300 crores and Rs. 400 crores in the following years and fell as low as Rs. 225·5 crores in 1930-31. The lowest point, however, was reached in 1932-33 when it stood at Rs. 136 crores. The result was that the positive balance of trade almost disappeared being Rs. 1·05 crores (compared to Rs. 45 crores for 1928-29) for that year. In subsequent years there was revival of exports and for 1939-40 the figure was Rs. 213 crores.[1] The balance of trade had revived to Rs. 44 crores for that year. The trade had not yet recovered its pre-depression level when the World War II broke out in September, 1939.

8. **World War II.** The War changed the whole situation. Productive activity was stimulated. Prices rose, demand for Indian produce for purposes of War increased. Indian industries got stimulated. But full advantage of the War could not be taken by India due to several factors. Among these were: the Government had to impose rigid controls on imports and exports in the interest of War requirements; many good markets disappeared as had happened in the previous War. There was shortage of shipping. The suppliers of our imports like Great Britain and U.S A. were preoccupied with production of war essentials and hence our imports fell. Exports, however, did not suffer so much because of the greater need of Indian produce for War purposes.

Trade statistics of the period do not reflect the real position. Firstly, they do not include the enormous purchases made by the British Government in India for the War effort. Secondly the goods supplied by U.S.A. under the Lend Lease System, are also not taken into account. Thirdly, some countries sold gold and silver in India through the Reserve Bank in order to make payments for Indian exports, this item also remains excluded from imports. Finally the figures do not include the value of purchases made overseas by the Indian railways.

With these qualifications the trade figures indicate that imports improved from Rs. 157 crores in 1940-41 to Rs. 173 crores in the following year. This was followed by a serious decline to Rs. 110 crores in 1942-43 due to the intensification of the War in 1942. The figure then gradually improved to Rs. 241 crores in 1945-46. As regards exports, there was a similar set back after 1941-42 when the figure stood at Rs. 237 crores. As in the case of imports the lowest point was reached

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(1) After 1936-37 trade figures of Burma were excluded. But this does not affect the general trends described.

in 1942 when the value of exports was Rs 187 crores There was a steady improvement after that due, among other reasons, to the steps taken by the Government (including sending of a Mission Gregory-Meek Mission to U S A) to find alternative markets for the Indian produce, especially in America, and to the larger demand for Indian goods by the Middle Eastern countries Indian exports (private merchandise) improved to Rs 210 crores in 1944-45 and Rs 242 crores in 1945 46

There were some significant changes in the direction of trade during the period under review as the following figures reveal —

Percentage share of Principal countries in India's Trade

A —Exports

Countries	1909 14	1914-19	1938-39	1944-45
U K.	25 1	31 1	34 3	29 3
Total British Empire	41 1	51 7	55'6	65 4
Middle Eastern countries	0 5	1 6	6	6 4
U S A.	7 5	11 9	8 4	21 3
Japan	7 5	11'2	8 8	.
Total foreign countries	58 9	48 3	46 4	34 6

B —Imports.

U. K.	62 8	56 5	30 5	19 9
Total British Empire	69'7	65 4	58'1	38 8
Middle Eastern country.	0 4	0 6	2 3	33'3
U.S A.	3'1	7 0	6 4	25 0
Japan	2 5	10 4	10 3	..
Total foreign countries	30 3	34 6	41 9	61'2

Thus, as regards exports, whatever the fluctuations during individual years, the general tendency upto the outbreak of the World War II was, that United Kingdom was increasing her share in Indian exports, and so was the British Empire taken

as a whole. As a result of the War while United Kingdom's share decreased, that of the Empire as a whole increased quite significantly. A study of detailed figures show that this increase occurred chiefly in the case of Ceylon, Australia, South Africa, East Africa and Canada.

As regards the non-empire countries, their share collectively speaking decreased considerably. Among them U.S.A., however, increased her share enormously especially as a result of the recent War. The Middle Eastern countries bacame important importers of Indian goods during the War period. Especially Iraq and Iran. Japan was maintaining an important position upto the War but disappeared when it became an enemy country.

As regards imports, United Kingdom's share fell to one-third as compared to the early years of this century. The British Empire's share fell by one-half. Detailed study, however, shows that the shares of some individual Empire countries improved *e.g.* Australia and British East Africa. Among the foreign countries, which collectively doubled their share in the Indian imports over the whole period covered by the statistics, special gains were made by the Middle Eastern countries and U.S.A. And these were made mainly during the recent War. Among the Middle Eastern countries the greatest share in imports, in 1945-46, belonged to Iran (24.5 per cent.) due to imports of petrol during the War.

A word may be said about the composition of trade and variations in it during the period under review.

Imports (percentages[1] of total).

	1909-14 average	1914-19 average	1938-39	1944-45
Food stuffs.	14·9	18·0	16	10
Raw materials.	6·9	6·6	23	50
Manufactures.	76·8	73·2	61	31

Exports (percentages of total).

Food stuffs.	28·7	27·6	23	20
Raw materials.	47·9	40·0	45	26
Manufactures.	23·0	30·0	30	52

(1) Percentages do not add up to a hundred in some cases because the item unspecified postal articles' and 'living animals have been ignored.

It will be seen that the two Wars gave stimulus to home industries by reducing foreign imports of manufactures and creating bigger demand for Indian industrial products. The Second World War produced bigger results in this connection. Export of raw materials and imporr of foreign manufactures were borh reduced due to the same reason—greater industrial activity in the country. This benefit, however, did not fall proportionately to the shate of Pakistan areas.

9. Post-War Period. 1945-47.—The yeat 1945-46 witnessed the return of peace following the unconditional surrender of Japan early in August, 1945, about four months after the surrender of Germany. India's industrial equipment, over worked to breaking point during the War, had to be replaced. Then there were plans for postwar reconstruction which had been delayed due to difficults of importing essential capital goods. The divetsion of productive resources to War purposes had tesulted in an enormous shortage of consumers good. The food situation was far from satisfactory and the Government had to import food from abroad.

Abtoad the cessation of hostlities had put an end to the commercial isolation of large parts of Europe and Far East, the resoutces of which had been mobilized for the pursuit of the policies of Hitler, Mussolini and Hiro-Hito. Thus the situation was ripe for expansion of trade. But the productive capacities of the bellegetants, except U.S.A , had been seriously undermined. U.S A. must bear the responsibility of supplying essentials for the reconstriction of War ravaged economies of Europe and some Eastern countries. But the question was: How to purchase American goods when there were no means of paying for them? Hence arose one of the most important problems of the post-War period viz the Sterling Area's inadequate holdings of non-sterling exchange, particularly dollars. This was the main consideration for continuing the restrietions on trade imposed during the War by countries including India. The Lease-Lend method of aid by U.S.A. terminated in September 1945. The first practical step taken to eliminate the existing restrictions on foreign trade was the Anglo-U. S. Financial Agreement, which gave a loan of 4·4 billion dollars to Britain. It was hoped that restrictions on trade would be soon liberalised. The establishment of the International Monetary Fund early in 1946 was another important step in the direction of promoting greater flow of goods among the nations by giving them assistance to tide over their balance of payments difficulties. The Internation Bank fot Reconstruction and Development was established

for the purpose to helping the reconstruction of War damaged economies and development of under developed countries. This also had a bearing on expansion of international trade through increasing economic development. But these were to be long term results. The idea of the I. M. F. was to put financial relations between countries on a stable multilateral basis.

As for Europe, the U.S.A. gave substantial financial assistance for the rehabilitation of the War damaged economies of European countries, through what is known as the Marshall Plan. Balance of payments difficulties, however, became very acute, in spite if these steps, and culminated later in the devaluation of the pound sterling and currencies of a large number of other countries, including that of the Indian Republic. But this was in 1949 a period which does not fall under our review here.

As regards Indian trade, due to causes already mentioned, it revived after the termination of hostilities as is indicated by the following figures.[1]

Value of merchandise in crores of Rupees.

	Imports.	Exports.	Balance.
1945-46	292 15	266·39	—25·76
1946-47	330 21	320·34	—9·86

But imports increased in a greater proportion to exports due to reasons already given above The result was an adverse balance of trade. The adverse balance of trade was an exceptional phenomenon for prepartition India. After partition adverse balance became a normal feature of the trade of the Indian Republic, because of the great changes that occurred in the nature of Indian foreign trade when Pakistan areas were separated. But more of this in the next Chapter.

(1) Including Privat and Government account.

CHAPTER XVII

FOREIGN TRADE

Post Partition Trends

1. **Consequences of Partition.** Before we consider Pakistan's trade separately it would be instructive to see how Partition affected the volume and character of foreign trade of the two successor states The first complete year after partition was 1948-49. We shall refer to the statistics of this year when comparing the position of the two countries

The total trade of prepartition India during the year 1946-47, the last complete year of old India, was Rs. 650 5 crores. The total trade of India and Pakistan taken together for the year 1948-49 was Rs 1151.5 crores. This figure does not include the over land trade between the new countries. Thus the sea borne trade increased by over 43 per cent. Imports increased from Rs. 330.2 crores to Rs. 636 5 crores or 48 percent. and exports from Rs. 320 3 crores to Rs. 515 crores or 60 per cent. during the same period. One reason of this was that the countries had to rely upon foreign imports in many cases where the two regions supplied each other's needs before partition. For instace, Pakistan had to import textiles, and India food and raw material from other countries under post-partition conditions. Moreover, some increase was due to the fact that what was domestic trade became international trade between the countries. Another reason was the reconstruction needs of the two states and the scarcity of goods created during disturbances, accompanying and following partition. Scarcity of consumer's goods in Pakistan was specially noticeable due to her backward industrial position.

Out of the total Indo-Pakistan sea borne trade over 82 per cent. was India's trade and just under 17% Pakistan's. This latter was less than proportional to Pakistan's population. But it in a way indicated a greater relative self-sufficiency of Pakistan as compared to India.

Classified according to categories of articles *i.e.*, Food, Raw Materials and Manufactures, the foreign trade of the two countries indicated the relative degrees of their industrial development. Thus as regaads exports 87.4% of the total value (Rs 80 crores out of Rs. 92 crores) was accounted for by raw marerials so far as Pakistan's exports were concerned as against India's 23.3 per cent. (*i.e.*, Rs. 99 crores out of Rs 423 crores worth of total exports). On the other hand while 55.5% of India's exports (Rs. 235 crores) consisted of manufactured goods, for

Pakistan this category accounted for only 4.4% of the total. (Rs. 3.9 crores).

As regards imports raw materials formed 24.1% (Rs. 127 crores out of Rs. 527 crores) of India's imports and only 8·3% (Rs. 19 crores out of Rs. 109 crores) of Pakistan's. Actually raw materials were still more important in the import trade of India if account is taken of the land borne trade, because the bulk of the raw jute imports from Pakistan into India came over land frontiers. As to manufactures in total imports their percentage was 78.2% (Rs. 85 crores) in the case of Pakistan and only 56.2% (Rs. 296 crores) in the case of India. About 20% of the value of Indian imports (Rs. 99 crores) was accounted for by food stuff. Pakistan normally has a surplus in food, but 1948 being a bad year, due to floods, Pakistan imported food (including drink and tobacco) to the amount of about Rs. 14 crores which formed about 13% of the total imports.

Finally, as regards the balance of trade, taking sea borne trade alone, India had an unfavourable balance of Rs. 103.9 crores and Pakistan of Rs. 17.6 crores. If the export of Pakistan goods via Calcutta is also taken into account her unfavourable balance is reduced to Rs. 4.85 crores only. In both cases re-exports are taken into account. If the land borne trade between India and Pakistan is taken into account, India's adverse balance would be still greater. On the other hand Pakistan would show a favourable balance of trade of about Rs. 78 crores according to one estimate. According to another estimate which takes into account Pakistan's over-land trade with Afghaistan and Iran and also takes into account government transactions the favourable balance would be Rs. 42.3 crores. Of this more later.[1]

This favourable position, howover, did not last during the following year as we shall see.

2. General Trends in Pakistan's Sea-Borne Trade. Pakistan's foreign trade falls under two categories (*a*) Sea-born trade which passes through its two ports, Karachi (West Pakistan) and Chittagong (East Pakistan[2]). (*b*) The overland trade which is constituted by goods moving across the land frontiers between Pakistan on the one hand and the Indian Republic, Burma, Afghanistan and Iran on the other. A considerable proportion of trade with the Indian Republic until recently has been over land. The overland trade with Iran and Burma is not so important

(1) See Section on Balance of Trade below.

(2) Recently an inland port Chalna has also been opened for foreign trade purposes.

and separate figures for them are not available. Trade with Afghanistan is quite substantial. The statistics of sea-borne trade are becoming more and more reliable and these give a fairly comprehensive picture of Pakistan's trade with the oversea countries.

The statement given below indicates the overall position as regards imports, exports and balance of trade in the case of sea borne trade of Pakistan. (Private account).

Trends of Trade

Period.	Export of Pakistan Merchandise (Private)	Re-exports of Foreign Merchandise (Private)	Imports of Foreign Merchandise (Private)	Balance of Trade (Private)
	Rs. crores	Rs. crores	Rs. crores	Rs. crores
15th Aug. 1947 to 31st March, 1948 1	42·47	6·52	13 88	+35·11
1st April, 1948 to 31st March, 1949	(2) 98 41	6·11	109 37	—4·85
1st April, 1949 to 31st March, 1950	(2) 81 91	7·61	111·40	—21 83
1st April, 1950 to 31st August, 1950	(2) 44·90	1·33	40·77	+15·46

(1) Excludes sea-borne trade with India.
(2) Includes trade in transit *via* Calcutta July, 48 to July, 1950.
(Source: Department of Commercial Intelligence and Statistics.)

It should be noted that the figures for 1948-49 are subject to two qualifications. 1stly right upto March 1st, 1948 goods could move without any customs barriers (except Pakistan's export duty on jute and cotton) across the frontiers of the two Dominions. It was, therefore, very difficult to separate the figures of imports and exports, passing through the two ports of Pakistan, according to whether they referred to Pakistan or the Indian Republic. 2ndly under the Standstill Agreement with the Indian Union it was decided to issue a joint publication in respect of the foreign trade of the two Dominions for the year ending 31st March, 1948. Conequently, Pakistan's sea-borne trade with the Indian Union was excluded from the figures issued for this period. Such trade, however, was included from July, 1948 onwards.

The table given above shows a steady growth of foreign trade of Pakistan since the partition. Taking imports and exports together the average per month was about Rs. 7½ crores

during the fitst 7½ months, Rs. 17½ crores for the year 1948-49, Rs. 16 crores for the year 1949-50 and Rs. 19·4 crores for the first five months of the year 1950-51. The set back for the year 1949-50 was due to fall in exports immediately after the exchange crisis as we shall see. On the other hand imports have been increasing steadily from less than Rs. 2 crores a month during the first 7½ months after partition to Rs. 9 crores a month for 1948-49 and slightly over this figure for 1949-50. For the first five months of theyear 1950-51 the monthly average of imports has been over Rs. 8 crores and of exports of over Rs. 11 crores.

3. **Factors Influencing Trade.** These changes can be explained with reference to various events that had impact on the foreign trade of Pakistan. Thus immediately after partition the whole foreign trade machinery of the country was thrown out gear of as was also the case with various other sections of our economy. Trade, industry and agricultural finance was in the hands of non-Muslims. With their migration out of the country its economic life got almost paralysed. This was specially the case with trade. The exporters and importers and the financing agencies with all their old connections suddenly disappeared. Imports suffered especially because almost the whole of the whole-sale and retail business was the monopoly of the non-Muslims. The Muslims took some time to enter into a field which was quite new to them. Exports being a few raw materials, mainly raw jute and cotton, could be more easily handled. Moreover, jute being one of the chief articles of export and a product of East Pakistan where emigration of non-Muslims was not serious, the export trade suffered relatively less. Hence such a big difference between the exports and imports for the first 7½ months after partition. Another factor was that imptors were under strong restrictions due to the import controls, a legacy of the War and the early post. War period. Pakistan took some time to revise these restrictive policies in the light of her new needs.

For the year 1948-49 we find an enormous increase in our foreign trade, especially the import trade. Things were settling down to normal. Muslims were entering into business and above all the Government released their import restrictions from August, 1948 onwards. This was necessitated by the acute shortage of consumer good that prevailed in the country after partition. The Pakistan areas used to depend upon what had now become the Indian territories for most of their needs of manufactured goods and for certain essential materials. Pakistan areas were relatively less developed in industry. Pakistan regions thus depended upon other parts of the subcontinent of India for cotton, textiles, jute manufactures,

tobacco manufactures and a lot of other sundry industrial products. In addition these regions being short of minerals like coal, iron and most of the other important metals depended on what was now the Indian Union for these needs. In return Pakistan areas exported to Indian territories raw jute superior raw cotton, hides and skins and a few other things. All this used to be domestic trade. Now with partition not only this trade became foreign trade, soon made subject to various regulations, but the circumstances accompanying and following the partition were such that normal channels of trade were choked. Further, India in her turn was neither co-operative nor sympathetic to meet Pakistan's needs and soon after the expiry of the Stand Still Agreement (March, 1948) declared Pakistan 'a foreign territory' for purposes of tariffs and levied high export duties(1) on goods needed by Pakistan. Pakistan also imposed duties on raw jute, raw cotton, hides and skins and cotton seeds in the budget (2) for 1948-49. But these latter duties were comparatively low and had only collection of revenue in view.

The net result of these developments was a serious shortage of essential goods especially consumer goods in Pakistan. The Pakistan Government was thus compelled to revise and liberalise their import policy to encourage foreign imports of such goods into the country. This was done in August 1948, when free import on Open General License (O.G.L.) was allowed in the case of a wide range of articles including consumer goods, in order to remove the scarcity that prevailed. Practically all imports from soft currency countries were made free of restrictions and the imports of machinery and capital goods from hard currency countries were freely licensed The import of essential consumer's goods from hard currency countries were also liberalised. This new policy coupled with the improvements in the means of communications and the emergence of new imp [illegible] the trade considerably, thus t [illegible] crores in the month of June to J [illegible] crores in August and were maintained at about that level for the rest of the financial year. Imports from foreign countries other than India rose from Rs. 11.51 crores in the first half of 1948 to Rs. 31.05 crores

(1) These [illegible] cotton yarn (except han [illegible] per ton on vegetable oils [illegible]

[illegible] going to the Indian Un [illegible] per bale of 400 lbs. hid [illegible]

during the second half of the year, in fact they remained high upto September, 1949. Imports during August, 1949 were Rs. 13 crores and for September, 1949 Rs. 11 crores. This resulted in a considerable fall in wholesale prices.

In October, 1949 import policy was again revised. This revision was necessitated by an event of very great importance in the world of international exchange. In September, 1949, Great Britain, hard pressed by her growing adverse balance of payments, was compelled to devaluate the pound sterling in terms of the dollar to the extent of about 30 per cent. A large number of other countries mostly of the sterling block followed suit. India's balance of payment had been seriously against her since the partition, due to her needs for importing food and essential raw materials. India also welcomed this opportunity of devaluating her currency and did so to the same extent as Britain had done. Pakistan surprised the world by refusing to lower the value of her rupee. Pakistan took this decision because she had nothing to gain by devaluating the rupee and she was not troubled by any balance of payments problem. In fact her trade balance was heavily in her favour on the basis of the trade statistics relating to the year 1948-49. India, however, did not like this policy of Pakistan and insisted that the latter should also devaluate in the same way as she had done. Since Pakistan refused to give in to Indian pressure India stopped her purchases of raw jute, cotton and other Pakistan products and imposed further restriction on her articles of export to Pakistan. The result was a trade and financial deadlock between the two countries. Since about 60% of Pakistan's trade used to be with India this created a serious situation for Pakistan and Pakistan was threatened with an adverse balance of payments especially when other foreign countries also delayed their purchases, hoping that Pakisran would ultimately devaluate her currency. Pakistan. however, had no intention of doing so. The Government to protect her foreign exchange resources and to prevent the emergence of an adverse balance took steps to discourage indiscriminate imports and to encourage the exports.

Thus soon after taking decision not to devaluate the rupee the Pakistan Government *suspended the Open General* Licence. According to the commercial policy announced in October 1949, unlicenced transactions were allowed with countries other than those of the American Account Area only in respect of certain essential commodities *e.g.*, machinery, mill work, drugs medicines and selected chemicals, metals and ores,

mineral oils, coal and coke, milk products, dyeing and tanning substances, trucks and jute manufactures. All other items of imports including cotton piece goods were made subject to licensing. Further in the case of cotton piece goods a quota system was later introduced and the traders were allotted quota on evidence of their past transactions. The idea was not to allow the market to be glutted by too much of imported cloth as it had happened in previous months.

As regards exports, the Government reduced the export duty on Desi cotton and also took various measures to meet the jute crisis, which resulted from India's refusal to lift Pakistan jute except at her own prices—which meant depriving the producer of the advantages of the non-devaluation of the Pakistan rupee. These measures we shall discuss in another connection. (1)

The effect of the new measure is reflected in the figures of trade. As regards imports they fell from Rs. 11.3 crores in September, 1949 to Rs. 6.3 by December, 1949 and 5.6 in February, 1950. Later they improved slightly and were Rs. 7.7 crores for March 1950. Exports by sea only had a small set back since most of out trade with India was over the lnd frontiers and much of our jute, cotton and oil seeds were diverted to countries nther than India. The value of exports for September was Rs. 4.4 crores. They fell to Rs 4.1 crors by November but then improved suddenly to Rs. 8.5 crores in December, Rs. 8.7 crores in January and maintained that level for the next two months of the financial year. Thus Pakistan's policy of discouraging imports and encouraging export to countries other than India was successful. The loss in our export trade with India over land, however, was not made up by this diversion though the crisis was successfully met. Even as regards our sea borne trade the year 1949-50, ended with an adverse balance to the tune of about Rs. 22 crores.

The trends of trade for the earlier monthes of the year 1950-51 were favourable to Pakistan. So much so that in June 1950 the Government was again able to libealise her import policy with effect from 1st July, 1950. As regards imports of machinery chemicals and other requisites of industrial development, they were allowed to the imported unlicensed from soft currency and other areas with be exception of the American Account Area even under the policy of October, 1949. In June these articles were put on the Open General Licence even from the Ameeican Account Area. Now they can be imported from

(1) See P. 172.

any part of the World. In the case of Japan the O. G. L. will cover not only machinery and chemicals but also cotton cloth and yarn. In the case of the rest of the World which includes all soft currency areas, Argentine, Belgium and West Germany important additions have been made to the items[1] which can be imported without a licence from 1st July, 1950 to 30th June, 1951. The result has been a considerable increase in imports. From countries other than India the value of imports increased from Rs. 5 6 crores in June 1950 to Rs..10.7 crores in September 1950 —almost 100% increase.

4. Balance of trade. The trends in imports and exports studied in section 2 and 3 are reflected also in the balance of trade position of the country. During the first 7½ months after partition, Pakistan had a heavy favourable balance of trade in merchandise on private account amounting to Rs. 35'11 crores even though the trade with India, both overseas and overland, is not taken into account. The reason was exceptionally small imports rather than very heavy exports. For the year 1948-49 the balance turned against Pakistan. Ignoring re-exports of foreign goods; exports through Calcutta and also the overland trade the adverse balance amounted to Rs. 17'63 crores. If Pakistan merchandise exported through Calcutta and re-exports of foreign merchandise are also taken into account the adverse balance of sea borne trade was only Rs. 4'85 crores. If the figures of nd borne-trade are also added the balance of trade was heavily favour of Pakistan. It has been estimated that as regards and borne trade with India Pakistan's favourable balance was to the tune of Rs, 59 crores[2]. This more than countery balanced the deficit with other countries. The reasons for the sea borne trade balance turning against Pakistan have already been given in the previous section. Imports increase at a higher rate than exports due to the liberal commercial policy adopted in August, 1948.

The balance of sea borne trade was still more heavily against Pakistan for the year 1949-50, due to Pakistan's decision not to devaluate her rupee and the consequent trade deadlock

(1) Among these items are : metals ores and tools, books, asbestos manufactures, earthenware pipes and sanitary ware, fibre boards, chemicals, drugs and medicines, dyes, dyeing and tanning substances, various types of glass and earthenware, electric instrument and appliances, machinery, matches, mineral oils, paper, butter, Ghee and cheese, milk foods for infants, spices, wool tops, silk yarn and thread, wollen yarn and knitting wool; Woollen piece goods, aeroplanes, and parts, complete cycles, motor trucks and parts and accessories of motor vehicles, wood and timber, umbrella fittings, plastic sheets, rods and tubes and tea chests and racks.

(2) Dr. B. Ghose: Indian Economics and Pakistan Economics: P. 503.

with India. The position is tabulated below on the basis of available statistics of sea borne as well as land borne trade.

Balance of trade 1949-50.

Exports by Sea.[1]	95'89
Over land exports to India.[2]	31'47
Total exports.	127'36
Imports by Sea.	114'28
Over land imports from India.	25'82
Total imports.	140'10
Balance of trade in *Mercandise*	—12'74

(1) Includes imports and exports on Government account except Defence items.

(2) Over land trade with Afghanistan, Burma and Iran has been ignored. No seperate figures are available but the volume if this trade is small.

Thus for the year 1949-50 Pakistan had an adverse balance of trade in mercandise to the value of about Rs. 13 crores. This was mainly due to suspension of trade with India after the no-devaluation decision of Pakistan in September 1949. Had the decision been taken earlier in the year, the adverse balance probably would have been still more heavily against Pakistan. On the other hand it should also be noted that India's attitude to Pakistan's exchange policy was not dictated by economic considerations alone. India did not let the normal economic forces to determine her trade with Pakistan. She deliberately refused to allow normal trade channels to operate. The figures for 1949-50, therefore, do not give a true picture of Pakistan's trade potentialities. On the other hand it is not merely the trade in merchandise which determines the balance of payments position, which is the real determinant of the strength of a country's currency, financial and economic structore in general. Account has to be taken of [illegible] tions whether in merc [illegible] plete figures are not [illegible] ition. More detailed figures for 1948-49 are available on the basis of which an attempt may be made to strike a balance. Though even here no estimate can be made of 'invisible' items of imports and exports. In many respects the year 1948-49 was more normal than the year 1949-50. The following analysis is therefore more apt to give an idea of Pakistan's economic and financial position.

Estimate[1] of Pakistan's Foreign Trade Balance for 1948-49

	Imports Rs. lakhs	Exports Rs. lakhs	Balance Rs. lakhs
Karachis Private Sea-borne Trade ...	88,06	61,44	−26,62
Chittagong's Private Sea-borne Trade	21,31	30,67	+9,36
Eastern Pakistan's Private Dutiable an trade with India ...	3,29	86,32	+83,04
Rough estimate of Eastern Pakistan's Private non-dutiable land trade with India ...	1,00	3,00	+200
Sea-borne trade on Government account excluding Defence items) ...	8,59	23	−7,76
Land imports into East Pak·stan on Government Account ...	3,58	...	−3,56
Rough estimates of East Pakistan's land trade with Burma ...	50	10	−40
Rough estimates of Western Pakistan's private land trade wit			
(*a*) Afghanistan ...	14,00	7,00	−,700
(*b*) India ...	2,00	1,00	−100
(*c*) Iran ...	27	17	−10
Rough estimates of total imports for Defence ...	5,00	...	−5,00
Totals ...	1,47,59	1,89,93	+42,33

The above figures take no account of invisible imports necessitating net payments for salaries, wages, profits, rents, interest, shipping banking and insurance services performed by foreigners. Not even a rough estimate is possible of these, since no data is available. Trade in treasure is not included.

(1) These figures were made available to the writer through the courtesy of of the American consulate.

5. **Main Articles of Export.** Pakistan's export trade is constituted by a comperatively few items mostly raw materials. The two fibres raw cotton and jute alone were responsible for 80% of total exports in 1949-50 The table gived below sets forth the value of the chief articles of export for the years 1948-49 and 1949-50.

Value of Chief Articles of Export[1].

Chief Articles of Export.	1948-49 Rs. lakhs	1949-50 Rs lakhs	+increase −decrease. Value Rs. lakhs	per cent.	% of Total in 1949-50
Hides and skins ..	5,35.45	2,97.87	−237 27	−44 3 ·	3 6%
Tea ...	3,77.21	4,91.26	+114.05	+30 2	6 0%
Cotton, Raw ...	37,95.51	35,50,46	−245.05	−6 9	43.3%
Jute, Raw ...	37,60.21	29,76,86	−783.35	−20 9	36.4%
Wool, Raw	3,35 21	3,16,32	−18 89	−5 6	3 9%
Cotton Seed ..	1,61 07	40,50	−120.59	−74 8	.5%
All other articles	8,76 87	5,17,93	−358.94	−40.9	6.3%
Total ...	98,41 19	81,91.24	−16,49.79	−16 9	100%

It will be seen that total exports in 1949-50 were about 17 per cent. lower than they were in 1948-49. The greatest fall occurred in the case of cotton seed, hides and skin and jute. The fall in exports of jute was much greater if we take into account over land exports to India. The fall occurred after September, 1949, when Pakistan decided not to devaluate her currency in response to the devaluation of the sterling and the Indian rupee. The excessive fall in the case of hides and skins was due mainly to the lower purchases by Spain. Spain reduced

(1) Does not include re-exports but includes trade in transit *via* Calcutta during July, 1948 to March, 1950

her demand from Rs. 189 lakhs in 1948 49 to only Rs. 62 lakhs in 1949-50. Most of the cotton seed used to go to India which country reduced her purchases of this article from Rs. 128 lakhs in 1948-49 to Rs. 4 lakhs in 1949-50. The only article which showed substantial increase in export was tea. The additional purchase was on the part of United Kingdom which increased its demand from Rs. 355 lakhs to Rs. 455 lakhs. The fall in the exports of raw cotton was due to to lower purchases by India, China and Czechoslovakia. Indian Unions purchases fell from Rs. 15,65 lakhs to Rs. 5,39 lakhs *i.e.* by two-thirds. Czechoslovakia purchased Rs. 72 lakhs worth of raw cotton instead of Rs. 114 lakhs worth and China's demand fell from Rs. 324 lakhs to Rs. 101 lakhs. This fall in demand was partly balanced by larger demand on the part of France (Rs. 268 lakhs instead of Rs. 35 lakhs) Japan (Rs. 487 lakhs in place of Rs. 77 lakhs and Hong Kong (Rs. 576 lakhs instead of Rs. 240 lakhs). The fall in the export of cotton therefore was only about 7 per cent. in 1949-50 as compared with 1948-49. Detailed examination of monthly figures shows thae it was only in the case of exports to India that the reduction can be co-related with the no-devaluation decision of the Pakistan Government. There was a set back in the case of other countries but soon the position improved, when they found that Pakistan intended to stick to her non-devaluation decision. Where the fall was persistent it was due to causes unconnected with the ratio question. In some cases there was a diversion of trade to new markets which partly made up for the loss of trade with India.

6. **Jute Exports.** The commodity that was worst affected by Pakistan's decision about exchange rate, and the consequent refusal of India to continue normal trade relations with Pakistan, was raw jute. The following table shows how our export of jute was affected by this decision.

Export[1] of jute from Pakistan by Sea.

(1) Includes trade in transit *via* Calcutta during July 1948 to March 1950.

In lakhs of Rupees.

Destination.		1948-49	1949-50	−decrease +increase in 1949-50 over 1948-49
U. K.		685.77	906 67	+220.90
Indian Union.		6.26	3.74	−2.52
Rest of common Wealth and Empire	...	69.21	45.54	−23.67
Total Common wealth and Empire.		761.24	955 95	+194.71
Belgium	...	500.18	150.95	−329.23
Czechoslovakia	...	69.45	68.52	−.93
France	...	398 61	461.55	+62.94
Germany	...	445.94	215.01	−230.93
Italy	...	132.55	175.15	+42.60
Rest of Europe	...	212 68	341.09	+128 41
Total Europe	...	1759.41	1412.27	−347.14
U.S.A.	...	805.90	343.29	−462 61
South America	...	238.59	70.84	−167.75
U.S.S.R.	...	107.13	81.15	−25.98
Other countries	...	87.95	113.35	+25.40
Total	...	37,60.22	29,76.85	−783.37
Exports to India by land	...	82,23.00 [1]	18,34.00[2]	−63,89.00
Total	...	119,83.22	48,10.85	−71,72.37

It will be seen that the export of jute in 1949-50 as compared with that of 1948-49 indicated a fall of 40%. Most of this fall however was due to a fall in the imports into India by land *i.e.,* about Rs. 64 crores out of Rs. 72 crores. The fall in

(1) See Pakistan trade (Department of Commercial Intelligence) April, 1950 p. 3

(2) *Ibid* August 1950 p. 3. Total exports to India are estimated at Rs. 22,07. lakhs of which Rs. 3 74 were by sea leaving Rs. 18,34 lakhs by land.

overseas exports was only about Rs. 7·83 crores. It should also be noted that the overseas figures given in the above table include trads *via* Calcutta which was at the mercy of India. If we take into account only direct exports from Pakistan to foreign countries they were Rs. 25·06 crores in 1949-50 as compared with Rs. 24·83 crores in 1948-49. This was in spite of the set back to our exports that followed the no-devaluation decision. Later exports improved considerably. The conclusion is that we suffered in our export trade not because our decision regarding the rupee ratio was not warranted by economic circumstances but because India deliberately refused to trade with us. Had India let the economic forces operate freely our trade in jute and also in some other commodities would not have shown such a serious contraction.

The jute crisis necessitated immediate action on the part of the Pakistan Government and such action was taken. On October 22nd, 1949 the Government promulgated the Jute Ordinance of 1949. A high powered Jute Board was set up with head quarters at Narayan ganj. The National Bank of Pakistan was established to finance jute trade. The pakka baling charges were reduced to a maximum of Rs. 4-8-0 a bale and minimum prices of all varieties of jute were fixed. The Jute Board appointed about 150 agents to buy jute at these prices; the Board on behalf of the Government, guaranteed the loss. Action was taken through the Jute Board to increase the output of pakka bales by making the pakka baling presses work three shifts a day. This was necessary because, 1stly, India had refused to give Pakistan any share of the export duty on Pakistan jute exported from Calcutta and secondly, because it is more economical to export jute in the form of pakka bales which occupy less space.

The result was a steady increase in the export of jute until in March, 1950 the equvalent of 2,02,339 pakka bales were exported, an all time record.

A result of India's attitude has been the great shift in our export trade in jute from India to some other countries. Apart from the trends shown by the table already given above the following figures bring out this tendency still more clearly.

Export of Pakistan Jute

	July, 1948 to June, 1949. bales	July, 1949 to June, 1950. bales	−decrease +increase bales
1. Indian Union: (including over land)	4,132,503	1,654,275	−2,478,228
2. Hard Currency areas	963,470	479,827	−483,643
3. Soft currency areas	917,565	1,247,782	+330,217
Foreign countries othen than India (2+3)	1,881,035	1,727,609	−153,426

The shift has been from India and the hard currency area countries to soft area countries. Among the hard area countries the main reductions were among the following.

Bales

	from	to	(−) decrease
Belgium	274,880	81,955	−192,925
Germany	233,149	115,593	−117,556
U. S. A.	356,163	219,656	−135,507
Argentine	79,264	28,071	−51,193
			−497,181

Among the soft area countries the main increases were among the following:—

	from	to	(+) increase)
Portugal	8,140	34,558	+26,418
France	188,454	275,975	+87,521
Italy	69,186	135,276	+66,090
Poland	17,220	59 281	+42,061
U. K.	394,348	471,768	+77,420
			+299,510

The gap created by India has not yet been filled and some of the hard currency areas have also reduced their purchases considerably, but through effective measures adopted by the ment and the increase in demand for Pakistan jute new countries the crisis has been controlled and it is during the 1950-51 season Pakistan will be able to jute crop more effectively and profitably. In the are being taken to start jute mills within the country should also be noted that the estimated total yield in

3,332,853 bales as compared with 5,479,095 bales for 1948-49 and naturally this difference also had to be reflected in the export trade. There is very little carry over laft from the last season.

7. Main Articles of Imports. The import trade of Pakistan indicates a much larger variety of articles as compared with exports. About 80% of the articles imported into the country are manufactured goods and the rest consist of either raw materials (about 8%) or "Food drink and tobacco" which constitute about 12% of the total value of imports.

Below are given some of the important articles imported on private account into Pakistan during the last two years :

	In crores of rupees	
Articles imported	1948-49	1949-50
Cotton Piece Goods	26·93	25·70
Cotton Yarn and Twist	11·25	16·36
Machinery and Mill work	5·67	8·25
Vehicles	4·73	5·22
Metals and Ores	3·42	4·53
Oil-Mineral	2·80	3·97
Drugs and Medicines	4·23	2.43
Provisions and Oil man's stores	2·07	3·43
Tobacco Manufactures	2·73	3·00
Instruments and apparatus	2·05	1·99
Hardwar	0·75	1·32
Total of above	66·62	75·60
All the others	42·75	35·80
Total imports	109·37	111·40

Apart from the above main articles, Pakistan imported in 1949-50 rubber manufactories worth Rs. 1·7 crores, paper and paste board Rs. 1·57 crores, non-essential and vegetable oils Rs. 1·45 crores, dyeing and tanning materials Rs. 1·94 crores, chemicals and chemical preparations Rs. 1·44 crores.

Taking individual commodities it will be seen that cotton piece goods top the list. These accounted for 23 per cent. of the total imports in 1949-50. In 1948-49 they constituted 25 per cent. of total imports and 31·5 per cent. of the imports of manufactured articles. This fact should cause concern when we know that Pakistan is one of the most important raw cotton producers and exports of the world. We know that about 45 per cent. of our exports (by sea) consist of raw cotton.

The most important sources of our imports of cotton piece goods in 1949-50 in order of their importance were: United Kingdom (Rs. 955 lakhs), Japan (Rs 659 lakhs) Indian Republic (Rs. 355 lakhs) China (Rs. 181 lakhs) U.S.A. (Rs. 113 lakhs) Italy (Rs. 60 lakhs), Netherlands (Rs. 35 lakhs) Switzerland (Rs. 33 lakhs) Czechoslovakia (Rs. 31 lakhs) and Brazil (Rs. 21 lakhs). Among other countries which sent us cotton piece good of the value of less than 20 lakhs but more than 10 lakhs were Hongkong, Soviet Union, and Hungary. The most important supplier was United Kingdom which was responsible for about one third of the total imports of cotton piece goods. During 1948-49 India topped the list and sent us Rs. 15'96 crores worth of cotton piece goods *i.e.*, 60 per cent. of the total piece goods imports. The percentage share of India fell to only 14 in 1949-50 due to trade deadlock following the no-devaluation decision of Pakistan. United Kingdom improved her percentage share from 18 per cent of the total to 39 per cent. and Japan from 2'3 per cent. to 26 per cent.

The next import in order of importance is cotton twist and yarn. It formed about 10 per cent. of total imports in 1948-49 and 14'7 per cent. in 1949-50. The increased import. of cotton twist and yarn is welcome because it provides the necessary raw material for weaving finer qualities of cloth to our handloom cottage industry. Even here the ideal should be to install spinning mills in the country and produce our requirements of finer kinds of yarn at home for which we produce excellent qualities of raw cotton.

Below are given two main suppliers of cotton twist and yarn to Pakistan.

	1948-49 Rs. lakhs	1949-50 Rs. lakhs
Italy	173	494
U. K.	271	362
India	173	86
Egypt	4	189

Other important countreis from which Pakistan imported cotton twist and yarn in 1949-50 were China (Rs. 73 lakhs) Japan Rs. 171 lakhs) and U S.A. (Rs. 33 lakhs).

For an industrially under developed country like Pakistan the import of capital goods like machinery is essential and should be encouraged. Such imports mutiply the productive capacity of a country and create employment in new and more profitable fields. In 1948-49 the value of imports of machinery and mill

work constituted 5 per cent. of the value of total imports. This percentage improved to 7'4 for the year 1949-50. The improvement is welcome but still it is not an adequate proportion of the total imports which mainly consist of consumers goods.

Pekistan's imports of machinery come from two following countries U. K. (Rs. 442 lakhs) and U.S.A. (Rs. 245 lakhs) together supplied 70% of the total imports under tins head compared to the previous year imports from U. K. were 14 per cent. greater and from U.S.A. 33'3 per cent larger. Other important snppliers of machinery were Japan (Rs. 3 6 lakhs Czechoslovakia (Rs. 14'3 Jakhs) India (Rs. 17 lakhs), Italy (Rs. 9 lakhs) and Germany (Rs. 8 lakhs.)

The rest of the two important may be disposed of preefly by indicating the names of the main supplying countries in order of their importance. Thus : Vehicles were supplied by United Kingdom (Rs. 266 lakhs), U. S. A. (Rs. 267 lakhs) both these countries together account for 86 per cent. of the total. Another 6 per cent. was supplied by Canada (Rs. 38 lakhs). The rest was claimed by Italy, St. Settlements, Czechoslovakia, India, France etc.

Metals and oers come from U. K. (Rs. 222 lakhs *i.e.* 42% of the total Belgium (Rs. 90 lakhs). U. S. A. (Rs. 67 lakhs) India Rs. 67 lakhs). Others sent small quantity and included countrie like Canada, France, Germany, Netherland etc.

Mineral oils were supplied by Iran (Rs. 196 lakhs or 63% of the total) followed by U.S.A. (Rs. 54 lakhs) Bahrein Islands (Rs. 38 lakhs) etc.

Drugs and medicines were imported from United Kingdom (Rs. 132 lakhs or about 60%) followed by U.S.A. (Rs. 47 lakhs) Switzerland (Rs. 26 lakhs), India (Rs. 14 lakhs) etc.

Provisions and Oil man's stores were sent by Netherlands (Rs. 155 lakhs or 40 % of the total) followed by U. K. ss.(R45 lakhs) France (Rs. 37 lakhs) India (Rs. 37 lakhs) Australia (Rs. 29 lakhs) etc.

Tobacco manufactures were imported from Indian Republic (Rs. 265 lakhs or 88% of the total) followed by U. K. (Rs. 22 lakhs) and U.S.A. (Rs. 11 lgkhs) etc.

Instruments and Apparatus was purchased from U. K. (Rs. 102 lakhs or 52% of the total) followed by U.S.A. (Rs. 40 lakhs), India (Rs. 16 lakhs), China (Rs. 9 lakhs) etc. Hardware was imported from U. K. (Rs. 43 lakhs) U. S. A. (Rs. 38 lakhs) both together supplying 62 per cent, of the total, followed by China

(Rs. 8 lakhs) Sweden (Rs. 7 lakhs) Czechoslovakia (Rs. 6 lakhs) etc.

As regards the other imports rubber manufactures merely come from United Kingdom ; paper and paste board from Sweden, Norway and U. K. ; non essential vegetable oils from Ceylon ; dyeing and tenning material from U. K., U.S A., India and Switzerland ; and chemical preparations from U. K., U.S.A. and Italy. The total imports of other goods being relatively small have been ignored.

The general impression of imports is that too high a percentage consists of Consumer's good which could be produced at home. Luxry articles also form a fairly high proportion especially in view of the poverty of the country and her needs for economic development. Producers' goods are not adequate and their imports need encouragement.

8. Direction of Trade Imports.—While discussing individual imports and exports we have already referred to the main sources of the supply respectively of the imports and the destinations of the individual exports. We have also indicated the shifts that have taken place as between the countries concerned as suppliers of our needs and purchasers of our products. In this section we intend to have a general view of the direction of our imports and exports taken all together. This will indicate general trends of our trade.

The following table gives a general idea of the sources of our imports and the charges that have taking place in the direction of our imports during the last two years.

MAIN SOURCES OF PAKISTAN'S IMPORTS

In Crores of Rupees

Country	1948-49	1949-50	+ increase —decrease in 1949-50 over 1948-49
U. K	27·01	34·77	+7·76
Indian Republic	44·93	17·61	−27·32
U. S. A.	7·96	11·97	+4·01
Japan	0·99	9·40	+8·41
Italy	3·82	8·24	+4·42
China	6·89	5·37	−1·52
Netherlands	1·27	2·68	+1·41
Burma	·67	2·38	+1·71
Egypt	·37	2·55	+1·18
Iran	1·95	2·10	+ ·15
Ceylon	·65	1·63	+ ·98
Belgium	·66	1·42	+ ·76
Switzerland	·53	1·31	+ ·78
Soviet Union	·88	1·21	+ ·33
Czechoslovakia	·31	1·19	+ 88
Total of above	98·89	103·38	+4·94
All other Countries	10·48	7·57	−2·91
Total imports	109·48	111·40	÷2·03

Imports increased by just over Rs. 2 crores in 1949-50 as compared with 1948-49. Except in the case of India and slightly in the case of China all the other countries listed above sent us more imports in 1949-50 as compared with 1948-49. The most serious fall was in the case of India. That country was responsible for 41 per cent. of our imports in 1948-49 and only for 16 per cent in 1949-50. Other four important countries *i.e.*, U.K., U.S.A. Japan and Italy supplied 36·4 per cent. of our imports in 1948-49, and 57·8 per cent. in 1949-50. Other countries which increased their exports to Pakistan by more than a crores of rupees were Netherland, Burma and Egypt. Other countries from whom Pakistan purchase more goods in 1949-50 than in 1948-49 and which sent us more than a crores worth of imports were Iran, Ceylon, Belgium, Switzerland and the Soviet Union.

9. **Direction of Trade—Exports.** As regards our exports they were purchased by a large number of countries, the most important of which in order of their importance in 1949-50 were as given in the table below :—

Destinations of Exports[1].

Countries.	In crores of Rupees. 1948-49	1949-50	+increase −decrease in 1949-50 over 1948-49
U.K.	17·67	19·36	+1·69
Indian Republic	22·91	8·54	−14·37
Other C. Wealth countries	5 14	8·18	+3·04
Total C. Wealth	45·72	36 09	−9·63
European countries	28 28	25·63	−2 65
U.S.A.	15·91	12·41	−3·50
Soviet Union.	5 50	4 89	−·61
Japan	1·13	5 35	+4·22
All others	7·99	5·16	−2·83
Total Exports	104·53	89 53	−15·00

The most striking feature of the change in direction is the considerable fall in our exports to the Indian Republic The fall is much greater if over land trade with India is also taken into account. But reliable figures for the whole period of overland trade are not available In Jute alone as we have already seen Pakistan lost the Indian market to the value of Rs. 64 crores. Thus ignoring other exports to India the fall in our export trade with that country was to the tune of almost Rs. 80 crores.

If we ignore our exports to India by land then the fall in the total exports by sea was almost the same as the fall in the exports to India. Thus the whole of the fall in exports can be attributed to India's deliberate policy of keeping away from the Pakistan market. As regards the other countries, U.K., some other Common Wealth countries and Japan made up for the gap caused by lower demand for our goods on the part of the rest of the world.

It would be interesting, however, to analyse still further our exports to European countries to see what shifts have taken place among the individual importers of our goods. The table given below sets out separated figures for some important countries of Europe.

(1) Includes re-exports of foreign merchandise; and also includes exports of Pakistan merchandise via Calcutta from July, 1948 to March, 1950.

Pakistan's Exports to some European Countries.

Countries	1948-49 via Pak. Ports	1948-49 via Cal-cutta	1948-49 Total	1949-50 via Pak. Ports	1949-50 via Cal-cutta	1949-50 Total	+increase —decrease in 1949-50 over 1948-49
A. Pakistan Merchandise:—	Rs. lakhs	Rs. lakhs	Rs. lakhs.	Rs. lakhs	Rs. lakhs	Rs. lakes	Rs. lakhs
Belgium	5,03	1,58	6,61	2,41	33	2,74	—3,87
Czechoslovakia	1,67	19	1,86	1,28	14	1,42	—44
France	4,04	57	4,61	6,74	65	7,39	+2,78
Germany	3,08	1,66	4,74	3,43	21	3,64	—1,10
Italy	3,21	23	3,44	2,99	13	3,12	—32
Netherland	99	6	1,05	1,22	...	1,22	+17
Poland	20	18	38	1,85	8	1,93	+155
Sweden	51	6	57	1,13	3	1,16	+59
Total Pakistan Merchandise	18,73	4,53	23,26	21,05	1,57	22,62	—64
B. Re-exported Foreign Merchandise	3,95	...	3,95	4,56	...	4,56	+61
Total exports to above countries	22,68	4,53	27,21	25,61	1,57	27,18	—3
Total Europe	23,47	4,81	28,28	23,71	1,92	25,63	—265

From the above table it is clear that the countries named claimed almost the entire export trade of Pakistan with Europe. These countries purchased Rs. 64 lakhs worth of Pakistan merchandise less in 1949-50 than in 1948-49. But if we take into account re-exported foreign goods the deficiency is reduced only to Rs. 3 lakhs. Further if only goods exported *via* Pakistan ports are taken into account they imported Rs. 232 lakhs worth more of Pakistan merchandise and 61 lakhs Worth more of re-exported foreign merchandise or a total of about Rs. 3 crores worth of merchandise.

The conclusion is that as a result of trade deadlock with India our foreign trade was diverted in larger quantities to important countries of Europe among whom France, Netherland, Poland and Sweden were prominent. The reduced purchases by European countries of Pakistan products were mostly due to stoppage of trade *via* Calcutta due again to India's attitude towards our exchange rate policy. Certain European countries like Belgium and Czechoslovakia reduced their purchases from Pakistan but this might either be due to temporary hesitation on their part to import for sometime after Pakistan's no-devaluation decision, taken with India's reaction, or to normal fluctuations of demand. Majority of the countries in Europe (and else where) increased their imports from Pakistan and to

some extent made up the gap caused by the fall in our exports to India. These trends indicate that there was nothing wrong with the economy of Pakistan. The unfavourable reactions of our non-devaluation decision on our export trade were in the main a deliberate creation of India. If India had accepted our rate and had allowed normal economic forces to determine the movements of goods between the two countries our trade figures would have indicated normal trends. Even as it was the gap created by India was fast being filled up with our extended trade relations with the rest of the world.

10. **Indo-Pak Land Borne Trade.** Statistics of Indo-Pakistan overland trade are either not available or when available they are not reliable. From July 1949 onwards, however, the Department of Commercial Intelligence and statistics attempted to collect some statistics of this trade on the basis of which some conclusions can be drawn.

The table given below sets out monthly statistics of import and export trade of Pakistan with the Indian Republic over the land frontiers.

Month.	Exports	Imports.	Balance.
	Rs. lakhs.	Rs. lakhs.	Rs. lakhs.
July 1949	260	171	+ 89
August ,,	809	239	+570
September ,,	769	263	+506
October ,,	395	121	+274
November ,,	53	107	− 54
December ,,	49	94	− 45
January 1950	31	33	− 2
February ,,	60	22	+ 38
March ,,	41	41	nil
Total 9 Months ...	24,70	10,98	13,72

Our exports to India seriously fell after our non-devaluation decision and so did our imports from that country the latter, however, were reduced with a certain amount of delay. On the

total trade of the period we had a favourable balance of about Rs. 14 crores with India. The balance turned against us from November onward. But it was reduced from Rs. 54 lakhs in that month to only Rs. 2 lakhs in January 1950 as our imports caught up in decline the exports. For February due to some increase in exports the balance was again favourable but the year ended with equalisation of imports and exports at a low level. Thus Indo-Pak over land trade from a total of over Rs. 4 crores for the month of July fell to only 82 lakhs by March 1950.

The greatest fall naturally took place in India's trade with East Bengal, the home of jute, India's chief purchase from Pakistan. This is indicated by the following table.

Total imports and exports from July 1949 to March 1950.

		Imports from India	Exports to India	Balance
		Rs. lakhs.	Rs. lakhs.	Rs. lakhs.
Sind	...	11.07	12.81	+1.74
Pak Punjab	...	3,02.60	3,62.88	+60.28
Total West Pakistan	...	3,13.67	3,75.69	+62.02
Total East Pakistan	...	7,84.70	20,94.29	+13,09.59
Total Pakistan	...	10,98.37	24,69.98	+13,71.61
%Share of East Pakistan	...	71.49%	84.8%	95.4%

Thus over 70 per cent. of imports from India come to East Pakistan and about 85% of the exports are sent out to India from that part of the country. Almost the whole of the favourable balance of trade is accounted for by East Pakistan. This is due to the fact that our major export to India ie. jute, is grown there. By far the largest proportion of the Indo-Pak overland trade with West Pakistan is accounted for by the

Province of Punjab.

11. Principal Articles of Imports. The main articles imported into Pakistan from India over the land frontiers are tabulated as under:—

July, 1949 to March, 1950.
lakhs of rupees.

Main articles of imports.	Sind	West Punjab	E. Bengal	Total
Boots and shoes.	.69	7.43	14.42	22.54
Coal and coke.	.62	16.28	17.07	33.97
Drugs and Medicines.	.04	6.81	19.55	26.40
Fruits and vegetables.	1.29	32.85	34.44	68.59
Machinery and mill work.	.02	21.31	12.92	34.24
Metals and ores.	.01	.21	23.75	23.98
Mineral oils.	...	...	41.74	41.74
Vegetable oils.	...	3.82	99.59	103.41
Provisions and oil man's stores.	.05	19.58	19.65	39.28
Salt.	...	...	46.41	46.41
Spices.	...	9.01	24 65	33.66
Cotton manufactures.	.27	5.21	64.40	69.88
Raw tobacco.	...	...	44.41	44.41
Tobacco manufactures.	6.13	74.63	96.47	177.24

It will be seen that Sind only imports tobacco manufactures in any significant quantities from India. As regards the rest apart from fruit and vegetables, they are imported in very small quantities. Sind having the port of Karachi nearley and being separated from India by a desert, probably finds it cheaper and easier to get its foreign requirement by sea.

The main articles imported into the Punjab in order of their importance are: tobacco manufactures, fruits and vegetables, machinery and mill work, oilman's stores and coal and coke, species, drugs and medicines, boots and shoes cotton manufactures. The imports fell serious after the exchange crisis otherwise their value should have been much larger considering the imports of earlier months.

East Pakistan is much more dependent on India for its needs. Vegetable oil tops the list, closely followed by tobacco manufactures, and then cotton manufactures. Other imports in order of their importance are salt, raw tobacco, mineral oil, fruits and vegetables, spices, metals and ores, oilman's stores, drugs and

medicines, coke and coal, boots and shoes etc. Here also imports fell serious after October or November 1949.

12. Main Articles of Exports. The table below gives the main articles of Pakistan merchandise exported to India over the land frontiers.

July, 1949 to March, 1950.
Lakhs of Rupees.

Main articles of exports.	Sind	W. Punjab.	E. Bengal.	Total.	% of total exports.
Building and engineering material.	...	23.09	3.99	27.09	1.1
Raw cotton.	...	33.95	...	33.95	1.4
Fish.		.08	89.10	89.18	3.6
Fruits and vegetables.	.14	209.10	44.00	253.25	10.2
Hides and skins.	...	1.00	23.64	24.64	0.9
Raw jute.	...	...	18,02.85	18,02.85	73.0
Seeds.	10.64	38.27	21.72	70.63	2.9
Spices.	...	.20	40.50	40.70	1.7
Wood and timber.	...	...	18.69	18.69	0.8
Raw tobacco.	...	...	2.57	2.57	...
Tobacco manufactures.	...	.57	.12	.69	...
Total exports.	12.81	3,62.88	20,94.29	24,69.98	1.00

The exports from Pakistan are not of such a variety of goods as import into the country. It will be seen that 73% of the total exports consist of raw jute from East Bengal. Fruit and vegetables mostly from the Punjab form 10 per cent. of the total exports. Small quantities of Fish from East Bengal, seeds from all the three provinces and raw cotton from the Punjab are also exported. Other exports are of negligible quantity.

CHAPTER XVIII

FOREIGN TRADE

Pakistan Trade Relations

1. Introduction. In this chapter we propose to discuss trade relations of Pakistan with India and other foreign countties. Our trade relations with India have been the greatest source of anxiety to us, because of the unsympathetic and sometimes positively obstructive attitude of that country towards Pakistan. Several trade agreements have been entered into by the two countries, but they have not resulted in achieving the objective of a smooth flow of trade between the two countries. Let us hope the recent trade agreement (February 1951) will achieve bettet results. On the other hand Pakistan's trade relations with several other countries have been getting closer. Trade agreements have already been signed with Japan, Western Germany, Austria Czechoslovakia, Poland, Egypt, France and Switzerland. A brief account of these developments will be instructive.

2 The Stand Still Agreement with India. Before partition the trade between what is now Pakistan and the Indian Republic was domestic trade. Now it has become international trade. For sometime after partition, however, it was consideren necessary to keep the *status quo* in the matter of trade relations. The Stand-still Agreement between the two countries provided for the continuation of the prevailing prepartition economic and commercial relations till February 29th 1948. Upto that date, therefore, the trade between India and Pakistan was in effect of the nature of domestic trade. There were, however, obstacles in the way of movement of goods accross the borders due to disturbances and consequent stoppage, especially in the case of the two Punjabs, of channels of trade and transport.

3. Emergence of Inter-Dominion Tariffs. Even during the currency of the Stand-still Agreement certain controversial issues arose. According to this Agreement and the subsequent Indo-Pakistan Customs Agreement, the total customs revenue was to be shared between the two countries on the basis of accrual. But goods shipped from India to Pakistan and from Pakistan to India were to be exempted from customs duty. This was only a short term arrangement intended to cover the period from 15th August 1947 to March 1st 1948. This arrangement, however, worked unfavourably for Pakistan especially as regards central excise. Had the distribution been on the basis of consumption of excisable articles Pakistan would have got a larger share.

Pakistan's suggestion, made earlier, that receipts under customs and excise should be pooled together and shared on some equitable basis was rejected by India India had argued that such an arrangement could be administratively feasible only under a long term arrangement of the nature of a customs unions. if Pakistan agreed to a customs union, India was ready to give it effect from the 15th of August 1947. India pointed out that this arrangement would also cover Pakistan's request made earlier, for a share in the revenue from the jute export duty which was mainly obtained from the export of Pakistan jute to foreign countries *via* Calcutta. Pakistan did not favour the idea of a custom's union for reasons to be given later.

In November 1947, Pakistan levied an export duty of Rs. 15 per *pacca* bale on raw jute exported to India. This was thought necessary because India refused to part with duties collected on Pakistan jute exported from Calcutta. In retaliation India, early in January 1948, declared Pakistan a foreign territory for collection of export duty on raw jute and jute manufactures. She, however, declared that it was without prejudice to any settlement that might be arrived at between the two countries on long term basis.

On January 24, 1948, Pakistan announced an export duty of Rs. 40 per bale (of 400 lbs.) on raw cotton exported to India. This was followed by imposition of import duties on a few specified commodities of Indian origin (*e. g.* sugar at Rs. 20 per cwt.) In the Budget for 1948-49, export duties of 10% *ad valorem* were imposed on raw hides and skins and cotton seeds and the duty on raw cotton was increased to Rs. 60 per bale. But Pakistan's full customs, tariff was not applied to India.

From 1st March 1948, the Government of India applied their full custom's tariff to Pakistan. Later, however, fresh foods and a few other items were exempted.

One of the most controversial issues in this context was the continued refusal of India to give rebates of the duties on excisable commodities exported to Pakistan. Such rebates India was allowing to other countries. This discrimination was several times pointed out by Pakistan in the correspondence with the Government of India and at the Inter-Dominion Conferences held from time to time. The issue was also raised by the Pakistan representative at the Geneva Session of the Contracting Parties to the General Agreement on Tariffs and Trade. The chairman of the conference ruled that under the terms of the Agreement any advantage granted in respect of internal taxes by

a Contracting Party to any product destined for any other country should be accorded immediately and unconditionally to the like product destined for the territories of all the other contracting Parties. India ignored this impartial ruling as well and Continued depriving Pakistan of an important source of revenue. Pakistan reacted by obtaining supplies of excisable commodities, such as sugar and matches, from sources other than India. Thus in the long run this attitude was not to benefit India India realised this fact, though after some delay. It was not until May 1949, that India agreed to an agreement with Pakistan (effective from 1st June 1949), according to which each Dominion undertook to grant full rebate of excise on excisable commodities exported to the other Dominion, if such rebates were given on export of their commodities to other countries.

In the meantime Pakistan had refrained from taxing most of the imports from India in the hope that this would facilitate trade between the two countries and reduce the inconvenience caused to passengers moving over the land frontiers This hope, as the Pakistan Finance Minister pointed out in his Budget speech for 1949-50, was frustrated through Government of India's decision to apply their full import tariff to Pakistan subject only to a few exceptions "This being so," he added, " we can no longer see any sufficient reason for depriving ourselves of the custom's revenue which we might obtain from non essential goods of Indian origin."[1] Import duties were thus to be collected on non-essential imports from India. It was, however, decided to exempt a large number of items The exemption included all cotton piece goods whose value was less than Rs 1-8-0 per yard This was in the interest of poorer classes Even for cloth of the value of more than Rs. 1 8 0 per yard only preferential rates were applied which were from 15% to 21% *ad valorem*. Artificial silks and certain other fabrics were also to pay preferential rates and tobacco manufactures imported from India were made liable to reduced rates of duty. Small export duties were imposed on cement, fish and bamboo and provision was made for an excise duty on raw jute at the rate of Rs. 1-8-0 per bale for cuttings and Rs 5 per bale for jute other than cuttings Pakistan was, however, willing to continue to export raw jute to India free of excise duty if similar concession was accorded by India to Pakissan on excisable commodities imported by the latter from the former. But India did not budge. India wanted to put pressure on Pakistan for entering into a custom's union with her. This would have meant Pakistan depriving herself

(1) Budget speech for 1949-50 p. 38.

of the economic advantages she had achieved at a great cost by creating a new independent state.

4. **Indo-Pak Custom's Union.** At one time considerable publicity was given in India to the idea of a custom's union between India and Pakistan. In March 1949, Mr. K. C. Neogy India's Commerce Minister speaking in the Indian Parliament revealed that the question of entering into a comprehensive trade agreement on the part if India and Pakistan, including the possibility of establishing a custom's union, had been discussed in Calcutta as early as April 1948, soon after the termination of the Stand-Still Agteement. The subject was further discussed at the Inter-Dominion Conference held in December 1948. According to Mr. Neogy it was agreed that each Dominion should separately examine the feasibility and practicability of a custom's union suitable to its peculiar conditions. It was thought that this study mjght be of use at a later date when the question might be taken up in earnest by both the countries. The matter also arose, as we have seen, in connection with the grant of rebates of excise duties on excisable articles exported from India to Pakistan. The Government of India wished to deal with this problem as a part of a comprehensive arrangement on trade and fiscal matters. Pakistan on the other hand considered that the question of rebates should be treated as a separate question. No agreement was thus achieved on this matter[1].

The real fact was that while India was very anxious for a custom's union, Pakistan did not think it would be to her advantage to enter into such an arrangement. In fact to agree to such a union would have been suicidal for Pakistan. It is not difficult to understand why the two countries took opposite attitudes in this matter. India stood to gain because the customs union meant in effect the acceptance of the principle of free trade between India and Pakistan. It meant that, as far as trade was concerned, *status quo* of rhe pre-partiaion days was to be perpetuated. This suited India very well, because all the industries were in her territories and she needed raw materials, especially raw jute and raw cotton, mainly grown in Pakistan. In return she would give to Pakistan her industrial products like cloth, matches, sugar, steels etc. In effect this would have meant the establishment of trade relations which usually exist between a mother country and her colony or dependency. India would get a cheep source of raw materials and a ready made market for her factory products. This would further

(1) Commerce (Bombay) 26th March 1949, p. 568.

stimulate industrial development and higher economic standards in India. On the other hand such an arrangement would have shattered all hopes of Pakistan's industrial development. Pakistan had to start her industries from scratch. In early stages these industries might have needed protection against the old established industries in India like cotton and jute. More over, even if a custom's union had merely meant a uniform tariff policy in relation to the rest of the world, the economic and financial needs of the two countries being not exactly the same, the same policies would not have been of equal benefit for both. A custom union would have taken away from Pakistan some important methods of stimutating her industries. The result would have been that Pakistan's economcy would have continued to be lop-sided and its over-depandence on agriculture would have been perpetuated. One of the objects of creating Pakistan was to give the Muslims of these areas opportunity of achieving high living standards through creating diversity of occupations This object would have been defeated if a custom's union were to be established between the two countries. Moreover, Pakistan was afraid that, in view of the inflationary conditions prevailing in India, an entire absence of trade barriers might lead to importation of inflationary conditions into Pakistan. Again Pakistan was afraid of losing the advantage of having a more stable currency as compared with the Indian rupee, due to Pakistan's better balance of payment position.

India again and again stressed the complementary nature of the economies of the two countries. True the economies were complementary, because the Indo-Pak sub-continent was developed as one economic unit, since it used to be one country. It was quite true that India depended on Pakistan for her raw jute, raw cotton, and a few other raw materials. Pakistan on the other hand being deficient in industrial products had, to import from India textiles, sugar, maches, iron and steel and some other articles. But perpetuation of this state of affairs was not in the interest of Pakistan as already noted above. In fact already forces were at work reducing this inter-dependence. Pakistan was looking to other countries for the supply of sugar, matches, coal etc., and India was trying to grow more raw jute and cotton within her borders.

This did not mean that Pakistan had no desire to have trade relations with India. Pakisran did want trade relations with India, but not at the expense of mortgaging her future economic growth. She wished to have a free hand in planning

economic prosperity and desired that India should have the same freedom. Public opinion in Pakistan, therefore, could never contemplate the possibility of entering into a Custom's Union with India much less a complete economic union which also was suggested by Mr. Neogy, the Indian Commerce Minister, as late as the spring of 1949 in his speech in the Indian Parliament already referred to.

India tried her best to force Pakistan to accept her terms of trade relationship. She tried to starve Pakistan of essential goods, in the hope of impressing upon her the necessity of coming to terms with India. She bracketed the consideration of legitimate requests of Pakistan about the sharing of custom's revenue and the matter of rebates on excisable articles exported to Pakistan, with the consideration of establishing a Customs Union or some such other arrangement. Pakistan reacted by finding other sources for her needs. After September, 1949 India coninued putting further economic and diplomatic pressure to make Pakistan recant her decision about the ratio question. She practically snapped all trade links with Pakistan and created a serious situation for Pakistan's most important export *i.e.*, raw Jute. This incident still further convinced Pakistan that her future lay not in the direction of making her economy more and more dependent on India, but in the opposite direction. Pakistan's trade, both imports and exports, thus began finding new directions. The hope of a Custom's Union with India entirely vanished. And this was all for the good as far as Pakistan was concerned.

5. **Indo-Pakistan Trade Agreement of May, 1948.** These were, however, long term considerations. In the mean time the two countries had to come to some sorts of an arrangement regarding the exchange of essential articles. The complementary nature of the two economies could not be denied at least for some time to come. India required Pakistan's surplus food and raw materials especially her cotton and jute industries depended mainly on Pakistan's raw cotton and raw jute. Pakistan on the other hand depended upon India for coal and manufactured goods of various kinds. The parties therefore in their own interests considered if necessary to enter into some sort of an agreement regarding the exchange of these essential commodities. This was the genesis of the first Indo-Pakistan Trade Agreement signed on the 26th of May, 1948.

Its main provisions were as under:—

(*a*) India was to supply to Pakistan, 21,98,000 tons of coal; 4,00,000 bales of cloth and yarn; 80,000 tons of steel, pig iron

and scrap; 7,500 tons of paper and-board; 1,270 tons of chemicals and pharmaceuticals; 2,500 tons of asbestos cement sheets; 500 tons of paints, enamels and varnishes; 18,00,000 tyres and tubes; adequate quantities of leather and footwear, 10,000 tons of Malabar jungle wood; 50,000 tons of jute manufactures; 2,000 tons of myrobalans; 11,00,000 lbs of woollen and worsted goods; 20,000 tons of mustard oil; 5,000 tons of groundnut oil; 2,000 tons of toilet soap; and 7,00,000 lbs. of flue cured tobacco.

(*b*) Pakistan was to supply to India 50,00,000 bales of jute; 6,50,000 bales of raw cotton, 1,75,000 tons of food grains; 1,000 tons of gypsum per day; 20,00,000 pieces of raw hides and skins; 20,00,000 maunds of rock salt; 5,000 tons of potassium nitrate and 550 heads of cattle.

(*c*) Unless otherwise arranged, supplies were to be made through commercial channels.

(*d*) India was to restrict the export of raw jute to 9,00,000 bales predominently of Indian varieties, the bulk of which is not suitable for use in Indian mills and is usually exported.

(*e*) The agreement was to last for one year *i e*, from 1st July 1948 to 30th June, 1949.

6. **Working of the Indo-Pakistan Trade Agreement:** This Agreement, however, did not work satisfactorily. Goods did not move between the Dominions according to its provisions. The position may be reviewed with reference to some important individual commodities.

(*i*) *Jute*: According to the Agreement, India was to be treated at par with 'hard curreny' countries *i.e.*, she could buy jute in the open market till the limit of her quota of 50 lakh bales was reached. Indian mills. however, were slow in buying jute and the market showed signs of depression. Pakistan had two alternatives under the circumstances; either she could export her jute to other countries where it was in keen demand or hold it for the Indian jute mills till the end of the season.

The latter course might have left unsold stock at the end of the season. Further this might have led to serious price fluctuations since the Indian demand would have controlled the price. Pakistan therefore proposed to fix monthly quotas of exports to India. If India did not lift the quota for the month it would have lapsed and Pakistan would have been free to

export it to other countries. This proposal was naturally not liked by Indian interests.

(*ii*) Cotton: Pakistan cotton was also in heavy demand in foreign countries. The total crop was expected to be 13 lakh bales, about one lakh bales less than the previous year. According to the agreement, Pakistan had to supply 6½ lakh bales to India which was half of the total expected crop. To ensure supply to India and to guard against irregular offtake, and thus to prevent price fluctuations, it was decided by Pakistan Government that exports to India should be under a system of licensing. The Government also proposed to fix a monthly quota with a lapsing clause. This again was not acceptable to India.

(*iii*) *Food grains*: As regards foodgrains Pakistan was not able to meet her commitments to India due to damage to her food resources resulting from floods. Pakistan, normally a surplus area in foodgrains, was made a deficit area through excessive rains of the 1948 season and the consequent floods in Eastern as well as Western Pakistan. In East Bengal three important rice producing districts, Comilla, Sylhet and Mymensingh, suffered damage in Kharif as well as winter crops by floods. In East Bengal alone, the estimated loss of foodgrains due to floods was 2,50,000 tons of rice. In the West Punjab the loss to Kharif crop was estimated as 1,25,000 tons of wheat and in Sind 1,50,000 tons of rice. The flood all over Pakistan caused damage to 35 lakh acres of land lowering supplies by 6 lakh tons of foodgrains. Pakistan thus had to apply for 160,000 tons of foodgrains from the International Emergency Food Council. Under these circumstances, it was not possible for Pakistan to supply to India the stipulated quantity of 1,75,000 tons of foodgrains:

(*iv*) *Coal*: As regards the commodities which India had to supply, Pakistan did not receive the full quantity of coal and found it difficult to move her cotton without it.

(*v*) *Other Commodities*: Pakistan received nothing from India against the quotas of steel, asbestos, cement sheet, sulphuric acid and tyres and tubes etc.

7. **Indo-Pakistan Trade Agreement (October, 1948).** A conference of representatives of India and Pakistan was held at Karachi on October 18 to 20, 1948, in which the difficulties in the way of the implementation of the Agreement of May, 1948, were reviewed. The conference led to a new Agreement which clarified certain points and provided for arrangements for the fulfilment of the provisions of the earlier agreement. This Agree-

ment was later ratified by the two Governments. The main provisions are given below :—

(a) As regards jute the agreement provided that there would be no change in the existing policy of Pakistan regarding jute export to India, that should circumstances warranted otherwise, India would be consulted before any change in the policy wsa effected At any rate no change would be effected till December 31, 1948.

(b) Regarding cotton the Indian delegation stated that the fixation of monthly quotas with the lapsing clause was not acceptable to India and should be reviewed. The representatives of Pakistan agreed to fix an export quota of 360,000 bales for India for the period ending Jan. 31st, 1949, provided that if Indian purchases during this period fell below 325,000 bales, such shortage would be liable to lapse. Pakistan delegation also agreed that duting the same period export quotas to other countries and purchase for internal consumption in Pakistan would not exceed 360,000 bales It was further agreed that consideration of fixation of quota as monthly or quarterly basis for subsequent petiods would be postponed and examined in due course by prior consultations in the light of the working of this arrangement as a whole.

(c) So far as the foodgrains were concerned, the Pakistan delegates assured the Indian delegation that Pakistan was most anxlous to implement the agreement and that best endeavours would be made to supply the stipulated quantity of foodgrains from the next Rabi crop.

(d) With respect to coal, which India had to supply, the Pakistan delegation stated that hitherto Pakistan had not received the full quantity of coal promised by India and that Pakistan fouud it difficult to move her cotton without the supply of coal from India. They, however, appreciated the difficulties of India in this respect The Indian delegation assured the Pakistan delegation that they realised the importance of coal to Pakistan, and that they would take steps to ensure that full quantity of coal was supplied every month.

(e) Regarding other commodities promised by India, the Indian delegation reiterated their intention of fulfilling the terms of the Agreement. They also agreed that regular supplies of cloth would be made to Pakistan.

(f) Both the Governments recognized that the
must be regarded as a whole and implemented in

ments should be made regarding the movement of goods in accordance with the terms of the Agreement.

It would appear from the terms of the above Agreement that whereas Pakistan gave concrete concessions and commitments the Indian delegation gave mere promises aud vague assurances. Pakistan gave up her idea of fixing monthly quotas of jute export, thus putting the jute grower at the mercy of the Indian mill-owners Moreover, Pakistan committed herself to consult India before any change of policy was effected. As regards cotton monthly quota with the lapsing clause was replaced by a guarantee to India of 360,000 bales of cotton exports up to 31st Jan. 1949. Furthet Pakistan put upon herself limitations regarding cotton exports to other countries and its consumption at home. As regards India's inability in the matter of her honouring her commitments in connection with the supply of coal to Pakistan, the Pakistan delegation expressed their appreciation of the difficulties of India. In return for this generosity what did Pakistan get? Assurances and promises that India would try to implement the terms of the Agreement!

8. **The Real Hurdle.** In spite of the exchange of promises at the October Conference and the resulting agreement the trade between India and Pakistan remained still obstructed. commodities did not move according to schedule. The real hurdle was the lack of goodwill between the parties. In the back ground were the various political and economic issues yet outstanding between the two countries—Kashmir, Junagarh, evacuele property, canal water, and a host of minor issues. On top the trouble appeared only in the field of trade. India complained that Jute Industry was having anxious time because receipt of Jute from East Bengal was uncertain, irregular and inadequate. The Cotton textile industry of India was facing a similar difficulty with respect to raw cotton. Thus by the end of January, 1949, it was alleged, that only 50,000 bales had been received from Pakistan instead of 360,000 bales as stipulated under the October agreement. On the other hand Pakistan was not receiving her quota of imports of sugar, vanaspati, paper and other commodities from India. Each party was blaming the other for this state of affairs. Pakistan complained that as regards textiles, matches and sugar Indian prices were too high and it was cheaper for Pakistan to purchase them from other countries. Further that India was discouraging the export to Pakistan of essentials like coal, iron and steel and some other articles badly needed by Pakistan. This was not merely a biased view of Pakistan. A

(1) Eastern Economics Feb. 4, 1949 P. 189.

leading Indian Economic Journal confessed that " Estrangement in the political sphere has hitherto distorted the perspective in the economic sphere, with the result that It has been assumed —not always unconsciously, not always by the uninformed— that it will be a clever thing to export as little to Pakistan as possible, while importing as much as possible from her." The journal added, " Now that it is becoming clear that a policy on those lines will not only strain our exchange resources, but also impede a high level of production in our major industries, it is necessary that the question of exports to Pakistan should be examined *de novo* with a view to finding ont how best we can stimulate a high level of export trade(1)". More over trade figures which indicated a balance favourable fo Pakistan to the tune of at least Rs. 50 crores also proved that it was not Pakistan but India that was with holding the movements of goods between the two countries.

In would appear, therefore, that even in the matter of trade real grievance lay with Pakistan against India. Right up to the beginning of 1949 India tried to put pressure on Pakistan to make her agree to trade arrangement mostly beneficial to her own side like the custom's union and the rest. But sane opinion in India was already realising the folly of this attitude towards Pakistan. Pakistan had always stood for Indo-Pak. co-operation. Therefore, an attempt was made by both governments to come to some agreement after a full discussion of all aspects of trade and some other outstanding issues.

9. New Delhi Talks of April, 1949. In consequence, talks were held early in April, 1949 at Delhi between the Finanace Minister of Pakistan Mr. Ghulam Mohammad and the Indian Commerce Minister Mr. K. C. Neogy. High hopes were pitched on these talks. In fact a tentative agreement was reached on the removal or reduction of certain tariffs and other restrictions imposed on the movements of goods by either country. It was also agreed to give full rebates from June 1st, 1949 on excisable articles exported to the other Dominion provided this facility was granted to any other country in the same commodity. Pakistan on her part agreed to withdraw export duty on bamboo and fish sent to India provided the latter continued to supply mustard oil free of export duty. India agreed to reduce the import duty on unmanufactured tobacco from Pakistan to rates corresponding to the rates of excise duty payable on similar Indian tobacco used for a like purpose. The agreement further provided that a seperate

(1) Eastern Economist Feb. 4, 1949. P. 190.

Conference be held to consider further the possibility of abolition or reduction of import or export duties on some more items and simplification of import export items.

10. **Indo-Pakistan Trade Agreement of June, 1949.** In accordance with the above agreement an Inter-Dominion Conference was held in the last week of June, 1949. As the Agreement of May, 1948 had to expire on 30th June, 1949 a new Agreement was signed (on 24th June, 1949) to take its place. This agreement had also a close bearing on the Payments Agreement of June, 1948 which also had to expire by the end of June, 1949. We shall come to this later agreement presently.

The Trade Agreement of June, 1949 was to come into force from 1st July, 1949. It provided that each country should give facility for the import and export of commodities between them as given in the accompanying schedules "A" and "B". These facilities related to grant of necessary licences, use of routes and methods of transportation and other reasonable assistance. Neither party was to re-export to any other country in the same form commodities imported under this Agreement. The purchases by each were to be uniformly spread over the year subject to seasonal considerations. The agreement was to be in force for a period of 12 months from 1st July, 1949 to 30th, June 1950 except where other wise specified in the schedules. During the currency of the Agreement, however, the schedules could be altered extended or supplemented by mutual consent. The right of traders entering into business transactions in respeet of goods and commodities not forming part of the agreement was also protected.

Schedule "A" attached to the Agreement listed commodities and their quantities which Pakistan was to export to India. These were: Raw cotton (450,000 bales); Buffalo hides (200,000 pieces); cow hides (1,000,000 pieces); goat skins (800,000 pieces); sheep skins (700,000 pieces). Raw jute (4,000,000 bales of 400 lbs. each) Rape and Mustard Seed (15,000 tons) and Rock salt (2,000,000 mds.).

Schedule "B" listed goods which India undertook to export to Pakistan. This was a much longer list and contained 23 items (as against Pakistans' 5 items) in all. Among these were: coal (2,040,000 tons.) Mill made cloth (150,000 bales) Cotton yarn (100,000 bales); Jute manufactures (50,000 tons); Railway stores (250,000 tons) Sea salt (2,000,000 mds..), Tobacco (2,000,000 lbs.) Other commodities were: Asbestos cement sheets, Canvas,

Chemicals, Hardwood Myrabol ams, Edible oils, Linseed oil, Paints and Varnishes; Bauxite, Electrical Steel Sheets, Pig Iron and Steel, Ferrosilion, Ferromanganese, Pitching Stone and Ballast and Washing soap.

After the Agreement had been si ned there was universal satisfaction in political, economic and business circles in the two countries A wave of optimism prevailed for some time and it appeared that the blocked channels of Inter-Dominion trade had been cleared. The trade ran smoothly for a time. On September 18 came the devaluation of the pound sterling—an event of the greatest importance in the history of international trade and finance This changed the whole outlook of Inter-Dominion trade relations.

Before we pursue these developments it is necessary to bring the history of Indo-Pakistan Payments arrangement up to date.

11. Indo-Pakistan Payment Agreement. This Agreement was signed in June 1948 with a view to regulate the methods of payments for inter-Dominion transactions. The Agreement stipulated as follows :—

(1) There would be no restriction on the dealings of Pakistan or India Rupees by the residents of the two Dominions and the respective Central Banks would be authorised to buy and sell rupees at parity and without limit.

(2) In order to accommodate a deficit in payments in either direction each Dominion would hold the currency of the other Dominion upto Rs. 15 crores against its own currency supplied at par:

(3) When payments from one Dominion to the other have exceeded Rs. 15 crores, payments up to a further amount of Rs. 10 crores (£ 7·5 million) would be made out of sterling held in *No 1 Account*[1] *of the* one *Dominion to the No. 1 Sterling* Account of the other.

(4) Beyond this limit the Dominion in deficit would pay the other Dominion in blocked sterling which is not otherwise available for making current payments.

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(1) These accounts are held with the Bank of England in connection with the Sterling Balances owed by U. K. to India and Pakistan, Sterling held in No. 1 Account consist of currently earned sterling and sterling released periodically by the U. K. from the blocked balances (held in No. 2 Account) for current expenditure.

This arrangement was made at a time when the pattern of Inter-Dominion trade was not yet clearly defined. Experience during the following months, however, showed that Inter-Dominion trade was resulting in a one sided deficit which threatened to become its permanent feature. The value of export of Pakistan to India was much larger than the value of her imports from that country for reasons already indicated. The balance of trade in favour of Pakistan for the year 1948-49 was estimated at Rs. 47 crores. Thus Pakistan had to receive blocked sterling in large quantities in lieu of this balance, which she could not use for financing her imports until released by the United Kingdom in the normal course of time. As for India this was a very convenient arrangement. She could purchase goods from Pakistan with the help of transfers of blocked sterling which was of no use to her for immediate payment to any other country. In fact this meant an inducement to India to keep her balance of trade with Pakistan unfavourable to herself by sending as little of her goods to that country as possible. This was at the back of her reluctance and failure to abide by the terms of the Inter-Dominion Trade Agreement of May, 1948. By this method India gained in two ways. 1stly, she got Pakistan's raw material essential for her industries by paying in currency which she could not use otherwise for current transactions. 2ndly, she was able to earn foreign exchange especially from hard currency areas by diverting her exports from Pakistan to those countries. Correspondingly, Pakistan suffered by this arrangement in two ways. 1stly, she was saddled with blocked sterling which was not available to her for immediate use and about the future of which should could not be absolutely sure, especially when there were talks abroad of scaling down these balances. apart from the devaluation of sterling as it later occurred resulting in reducing the value of these assets in terms of hard currencies. 2ndly, the goods that she failed to receive from India she had to purchase from other countries. This meant a strain on her foreign exchange resources. Thus through this arrangement, while India was making her foreign exchange resources "liquid" Pakistan was getting them "frozen".

Pakistan wanted to end this arrangement and replace it by a new one according to which all excess over Rs. 15 crores should be paid in the form of "free" sterling. Failing this Pakistan insisted that India should export goods to the same value as she imported from Pakistan.

As regards paying in free sterling, India had already over drawn her free sterling resources in payment for her commitments against food imports and imports of essential capital goods for rehabilitation of her industry. This, however, was no reason for India not to meet her commitments to Pakistan. It meant that India must cut her coat according to her cloth and cut down imports of various unessential articles which were coming into the country. She could not reasonably expect Pakistan to agree to let India balance her payments at Pakistan expense.

It was because of this that after the expiry of the Payments Agreement in June 1949 the new Agreement which took its place raised the limit of payment in free sterling from Rs 10 crores to Rs. 20 crores This arrangement though not ideal was regarded as on the whole satisfactory in Pakistan But along with this it was also necessary that attempts should be made to reduce the trade deficit of India with Pakistan by stimulating her export to that country. Hence the Trade Agreement of June, 1949 already considered.

12. Temporary Optimism. In this Agreement attempts were made to balance accounts by reducing Pakistan'st exports to India of jute and raw cotton and India undertaking to export more of certain goods as compared with the Agreement of 1948. For instance, the commitments of Pakistan regarding the export of jute were reduced from 5,000,000 bales to 4,000,000 bales a reduction of 20% ; of cotton from 650,000 bales to 450,000 bales a reduction of 30% These two commodities alone meant a reduction of about Rs. 30 crores in value of exports. Pakistan undertook to import an extra quantity of 5,000 tons of mustard oil in addition to the 30,000 tons otherwise provided The export of edible oils alone were estimated to put Rs. 16 crores additional to the exports from India to Pakistan. Some new items like bauxite, electric steel sheets were added and tobacco exports were stepped up by 200%.

It would appear, therefore, that Indo-Pakistan trade was going to assume patterns equally beneficial to the two parties. The controversy of the rebates on excisable exports was settled and Pakistan's contentions regarding the payments arrangements had also been partially met. There was a cease fire in Kashmir. All this gave ground for optimism for future Indo-Pakistan relations [illegible] ...is optimism did not last long [illegible] ...outlook was the devaluation [illegible] the American dollar on 15th September, 1949.

13. **Devaluation and After.** We shall, in a later section, make a detailed study of the circumstances leading to the devaluation of the pound sterling and consequently of the Indian rupee and Pakistan's decision not to follow suit. Here we shall only refer to the consequence of these developments on Indo-Pakistan trade relations.

Following Pakistan's decision not to devaluate her currency India by an Ordinance raised the export duty on jute manufactures from Rs. 80 per ton to Rs. 350. "With a view to crushing the economic structure of East Bengal," wrote the Karachi correspondent of the Bombay Commerce on 15th December, "—and through that of Pakistan as a whole—the mill owners at Calcutta and their agents in East Bengal, intended to force down the price of jute by deciding not to purchase."[1] As a result East Bengal was faced with a depression threatening to send jute prices crashing down. But through the timely measures taken by the Pakistan Government, which we have already described, in the previous chapter, the situation was saved and the artficical slump was successfully arrested. Pakistan was able to market almost the whole of the remaining jute of the the season 1949-50 in countries other than India.

The Pakistan Government also had to take measures to save her merkets from the influx of Indian goods under the new conditions. Hence new tariff rates were announced for goods of Indian origin. About 35 items were removed from the exemption list. Among these were molasses, chemicals of different varieties, paints and colours of different ingredients, fur skins, cotton twist and yarn.

The Government of India retaliated by raising the price of coal by Rs. 12 per ton and banning the export of this commodity on private account. The price of mustard oil exported to Pakistan was also raised. Finally, India rejected Pakistan's offer of 1·75 lakh tons of wheat provided under the Inter-Dominion Agreement at the new rate of exchange. A veritable trade deadlock ensued between the countries, which was further accentuated by the financial deadlock resulting from India's refusal to accept the new rate of exchange of the Pakistan rupee in terms of the Indian rupee.

When no agreement seemed possible with India on the exchange issue the Government of Pakistan announced on 15th November the official rates for selling and buying at 143-11/16 Indian rupees=100 Pakistan rupees and 144-3/16 Indian rupees=

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(1) Commerce: Supplement to Annual Review Number. P. (vii).

100 Pakistan rupees, respectively. The Government further authorised the scheduled banks to enter into transactions for the sale or purchase of Indian rupees at the same rates. Transactions in foreign currencies at rates other than those authorised by the State Bank were prohibited. Though State Bank was not prepared on its own account to purchase or sell Indian rupees, it permitted scheduled banks to make remittances to and receive remittances from India within their own resources.

The trade and financial deadlock that followed almost stopped all movements of goods between the two countries. In the last chapter we have already studied how inter-Dominion trade was affected by these developments and what steps the Pakistan Government took to meet the jute crisis that arose.

This deadlock continued for about seven months. During this time Pakistan entered into trade agreements with several countries, in order to make up the deficiencies caused in her import and export trade due to India's attitude, by tapping new markets for her exports and new sources for her imports. We shall came to these agreements in a subsequent section.

The tension that existed between India and Pakistan after the de-valuation crises ultimately burst in the form of communal disturbances in February and March 1950 and the inter-Dominion relations almost reached the breaking point. Early in April, however, the two Prime Ministers met and entered into what is known as the Minorities Agreement which cleared the air. This Agreement was followed by trade talks between the representatives of the two countries at Karachi. These resulted in a short term Trade Agreement.

14. Indo-Pakistan Trade Agreement of April, 1950. This Agreement was signed on the 21st April, 1950 and was to remain in force until July, 31st 1950. Under it the Government of Pakistan undertook to supply to India on the specified dates 40 lakh maunds of raw jute according to agreed terms and conditions. The Government of India on the other hand undertook to supply 20,000 tons of jute manufactures in accordance with the similar terms and conditions. In addition facilities were to be provided for puchase by Pakistan from India through normal trade channels of the following goods and commodities:—

Cotton textiles (fine and superfine) 45,000 bales; cotton yarn (of counts 40 and above) 5,000 bales; Mustard oil 7,000 tons; Tobacco, 5,00,000 lbs; steel sheets (corrugated and plain), 5,000 tons; wheel tyres and axles 1,000 tons; timber 12,000 tons; cement for East Bengal 50'000 tons; woollen manufactures to the value of Rs. 50 lakhs.

In addition to the above commodities the two Governments agreed that trade in a number of specified commodities, mentioned in the Agreement (e.g., vegetables, fruit, fish eggs, milk, cotton, cotton seeds, soda ash, hides and skins, leather, spices, paints, chemicals, acids, cigarettes, electric fans, sewing machines etc.) would be permited to take place without import, export and exchange restrictions on either side.

To avoid currency difficulties the two governments agreed as a temporary expedient that transactions in commodities which the parties had agreed to supply to each other, should be accounted for in the Indian rupee through a special account maintained with the Reserve Bank of India for this purpose. The intention was to maintain a balance of trade in the transactions covered by this Agreement.

The two Governments further agreed that their representatatives should meet every month to review the progress in the implementation of this Agreement.

Such monthly conferences were held in May and June 1950. Discussions included items, mostly pershables, trading on which could be made free of impcrt, export and exchange restrictions. In the June conference India agreed to supply part of her export of cement (of 50,000) to West Pakistan. India also agreed to send Rs. 2 lakhs worth of giant tyres and 2 million lbs. of cured tobacco in addition to the commodities listed under section 4 of the April Agreement, In view of the slow delivery of jute a new schedule of deliveries was agreed upon. Pakistan agreed to see to it that the entire quantity of jute namely 40 lakhs maunds will be delivered within the stipulated time.

Another set of discussions took place in Karachi on 22nd, 23rd and 24th of June, 1950, regarding release of goods destined for one country and detained in the other. These included raw jute and jute goods, vessels, railway wagons and locomotives etc. goods in transit from a foreign countries, other goods in transit, goods other than raw jute purchased and paid for before devaluation. Complete agreement was reached between the two countries on all these issues.

The Agreement of April 1950, expired on 31st July 1950, and after a meeting of representatives of the two countries its main provisions were extended to the end of September 1950. After that date Pakistan invited new proposals. India refused to enter into any trade Agreement with Pakistan pending the final decision regarding the question of the ratio of the Pakistan rupees,

This issue was before the Internationed Monetary Fund of which Pakistan had become a member. The Fund had to approve the rate of the Pakistan rupee as proposed by Pakistan. This issue was discussed in the middle of September 1950, at a meeting of the Fund. It was decided by the authorities of the Fund to postpone their final decision to the next meeting. It has been announced recently that the Fund has approved the par value of the Pakistani rupee. India accepted the ratio on 26th February [1]. But since the matter has been subjected to so much controversy, let us consider the case on merit.

15. What Forcee a Country to Devaluate her Currency. To clarify the issue and to understand Pakistan's stand in this matter it is necessary to answer the following questions: (a) What forces a country to devaluate her currency? (b) What were the circumstances that forced Great Britain to devaluate the pound sterling in terms of the American Dollar? (c) Why did India follow Britain in this matter? (d) Why did Pakistan decide not to follow suit?

It becomes almost inevitable for a country to devaluate her currency when her balance of payments indicates persistent disequilibrium traceable to certain fundamental causes. When there is a deficit in the balance of payments due to temporary causes the situation can be corrected either by stimulating exports or cutting down imports or by international borrowing. At present the machinery of the International Monetary Fund can make available the required foreign exchange to tide over such disequilibria—a function that used to be performed by the International Gold standard when it used to be effectively at work some 20 years ago. When the disequilibrium in the balance of payments is due to permanent causes the measures mentioned above are not adequate to meet the situation. The most Important cause of a permanent nature is the disparity in the price levels prevailing between the deficit and the creditor countries. Such disparity may be due to inflationary finance, high prices of elements of cost like food, raw materials and especially real wages in the deficit country. If such a situation arises there are two alternatives available to the country concerned namely :- to introduce effective deflationary measures which should result in lowering of the whole income and cost structure like cutting down wages and other social benefits conferred upon the labouring classes, economy in budgets in order to reduce taxation of productive, enterprises, etc. But such a process is painful and

(1) See the Appendix to this Chapter for the new Trade Agreement with India which was signed simultaneously with India's acceptance of Pakistan's no-devoluation decision.

leads to depression and wide spread unemployment. The comparatively easier and more practicable way is to reduce the value of the currency of the debtor country in terms of the value of the currency of the creditor country. Such a step cheapens the exports of the debtor country in terms of the currency of the creditor country and affects in the opposite manner the imports from the creditor country into the debtor country. In this way the balance of payments tends to be restored.

16. **Situation in Great Britain in Sept. 1949.** Great Britain along with the rest of the sterling block and the West European countries were faced with such a situation. The West European countries had suffered from inflationary finance and war destruction on a large scale. Their economies had been disconnected from the sources of their raw materials and food, in the East European countries, now under the Russian influence, and the politically disturbed countries of the South East Asia. Great Britain in addition to having suffered from destruction, caused by bombing during the War, had exhausted the perennial source of her income that used to flow to her on account of her foreign investments. Her position had changed from a creditor to a debtor country. This made it difficult for her to import food and raw materials necessary for the rehabilitation of her industay and revival of her export trade. Added to that was the high cost structure which she had developled in meeting her socialistic programme of social security to which her Government was committed after the elections of 1945. The result was that in Great Britain, and some other countries of Europe, the price level was being maintained at too high a level to make it worthwhile for the hard currency areas especially the chief creditor U. S. A. to import goods from them. On the other hand these countries needed imports from dollar countries, especially from U.S A. for reconstructing their economies. A disequilibrium arose in the balance of payment between such countries and the dollar areas. To some extent the situation was eased by financial assistance given by U.S.A. in the form of Marshall Aid, but such aid could not continue indefinitely and was to be stopped by 1952. Britain was fast losing her gold and dollar reserves. There was no choice left for her but to reduce the value of the pound in terms of the dollar which she did on 18th September, 1949, to the extent of about 30 per cent by lovering the rate from \$4·03 to \$2·80 per £.

Other countries of the Sterling block including India and most of the Western European countries followed suit, because they were in a similar predicament. Pakistan decided not to fall

in line with the rest of the sterling block becauce her circumstance were different.

17. Situation in India. The position of India was in certain respects similar to that of Great Britain. Ever since the partition—rather ever since the end of the War—Indian trade figures were showing an unfavourable balance. The trade deficit increased further after the Pakistan areas were separated. This was for various reasons. India was now made dependent on Pakistan areas for raw jute and raw cotton for her industries, She had to import food grains from abroad to make up the chronic food deficiency which was now accentuated because the food surplus areas of the Punjab and Sind were now in Pakistan. Further, the country was in the grip of inflation which was partly a legacy of the war but had been further accentuated by India's military adventures in Kashmir, Junagarh, and Hyderabad and high defence expenditure which she thought proper to maintain in view of her aggressive attitude to Pakistan. Production, specially industrial production, was not inceeasing, In fact in certain sectors, it was falling, due to labour troubles, general political and civil strife in the country, and inadequate supplies of raw materials especially jute and cotton, due to continued strained relations with Pakistan. As regards her exports, which normally could have formed a ready market in Pakistan, they were partly being deliberately withheld and partly Pakistan found them too expensive compared to similar imports from other sources There was a diversion of trade of Pakistan away from India. All this combined with a liberal import policy which the Government had been following during 1948, and early 1949, as a remedy against inflation, had created a situation in which India was faced with an adverse balance of payments.

This situation was frankly recognised in competent quarters in India. In a special article on "India's Balance of *Payment*" the *Eastern Economist* wrote on March 11, 1949, "It is some thing to be told (by the Indian Finance Minister) that the problem of our balance of payment with the dollar and hard currency countries is causing Government grave concern .... How considerable the disequilbrium is is highlighted by the rapid exhaustion of our current purchasing authority with the International Monetary Fund. We have had recourse to the Fund seven times within less than a year and have drawn £92,480,000 out of the maximum permissible amount for a year of 25 per cent. of our quota *i.e.*, £100 millions. Thereby we have achieved the unhappy distinction of having

made the third largest aggregate purchases from the Fund being next only to Britain and France in this respect[1]".

Referring to financing the imports from the sterling assets the journal stated: "The deficit in non-governmental transactions in the latter half of the last year (1948) was about Rs. 46 crores. Spendable sterling available for the same period is only about Rs. 53 crores. This means that virtually the whole of the amount of spendable sterling available for the period has been taken up by non-governmental transactions, including both goods and services transactions. As Government transactions—which include financing food imports—would also have necessarily resulted in a large net deficit, it is clear that India has in fact been having in recent months, an over all deficit in current account, which is widely in excess of contemporaneously available spendable sterling[2]." To meet this situation one of the remedies recommeded by the witer of the special article was encouraging exports to Pakistan: "The present attitude of indifference, if not of resistence, to the development of our export trade with Pakistan must be given up and a vigorous attempt should be made to export coal, textiles, sugar, vanaspati, leather manufactures and other domestic production to Pakistan so that no large sterling payment need be made for the raw cotton and the raw jute which we must necessarily import from Pakistan to the tune of over Rs. 125 crores[3]."

Faced with such a situation it was natural for India to welcome the lead given by Great Britain in the matter of currency devaluation. In fact competent observers in India were anticipating, even recommending such a step some months before Great Britain devaluated her currency. This decision was quite in keeping with the economic requirements of India. But conditions in Pakistan were quite different

18. **Pakistan's Decision Justified.** In contrast to the situation in India, Pakistan had no problem of an adverse balance of payment. We shall quote the same Indian Journal which in another special article on "Pakistan's Balance of Payment" which appeared in its issue of June 10, 1949 wrote as follows: "The dominant fact about the economic position of Pakistan today is her very strong balance of payments position, not only in relation to India, to which she is exporting essential raw materials for her industry, but also in relation to the hard

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(1) Eastern Economist, March 11, 1948 P. 406
(2) *Ibid* P. 405.
(3) *Ibid* P. 406.

currency areas. While other countries w supply primary products have been importing food or ot onsumer's goods in exchange, Pakistan's favourable positior ading supplies of food grains has removed an important so of expenditure of foreign exchange. *The cumulative effect these factors has been to place Pakistan's foreign exchange pos on a very satisfactory basis and there are reasons to bel that the present trend can be substantially maintained at lea the next few years*"[1].

These special articles are semi-editori In this article the journal agrees that "the position reg g her balance of trade is the main barometer of Pakist alance of payments[2]." It is interesting to note that same journal after the devaluation crisis esserted that stan's balance of payments "has not—and never been—a ue of balancing the trade account only[3]". Among the invisi tems the writer now includes payments for refugee propert nd, after 1952, payments of the Indian debt ! Obviously th sessment made before the devaluation controversy with n statted was more impartial.

Thus Pakistan's balance of payments pos was 'strong' at the time of the devaluation of the pound, e that of India was causing 'grave concern' to its governme In fact before the Indian rupee was devaluated it was ove ued in terms of the Pakistan rupee and the Pakistan rupee under-valued in terms of the Indian rupee. The devaluat of the Indian rupee and the non-devaluation of the Pakistan e restored the real relative positions of the two currencies.

Not only Pakistan was not faced with y balance of payments problem the decision not to devalu was justified on other grounds as well. Pakistan's exports c sted of a few raw materials like raw jute, raw cotton, hid nd skin, raw wool, etc., both supply and demand for w was inelastic, assuming that India was to be moved only by e mic motives. Pakistan could not have stimulated her expo of the commodities by devaluating her currency, because t production could not have been substantially increased a what was produced was finding adequate markets. In fact d uation would have only decreased the proceeds of these o rts in terms of hard currencies and thus would have depri Pakistan of some of her hard currency resources, which badly needed

(1) Eastern Economist March 11, 1949, P 944
(2) Ibid P. 945
(3) Ibid Sept. 22, 1949, P. 443.

of capital equipment. On the other hand the Pakistan rupee meant cheaper imports of essential cap and consumer's goods into Pakistan. Further, Pakistan wish to counter-act the prevailing inflationary tendencies, espally in Eastern Pakistan, in the interest of the mass of people. These were the reasons, which were entirely econo. which led Pakistan to follow a path divergent from that folld by India.

19. **Subsent Developments.** Now the question arises: Has this decisbeen justified by subsequent events and developments? India allowed Inter-Dominion trade to take its normal co every thing would have gone entirely smoothly and all the expectations of Pakistan would have been fulfilled. The differencetween the general levels of prices in the two countries, Pakn's huge favourable balance of trade with India, Pakistan's favable balance of trade with hard currency areas, when India'sance with these areas was causing concern to her governm, all pointed towards the fact that the natural position of two rupees was not that of 'par' with each other. The-istani rupee definitely had a higher purchasing power. If Inhad doubts she might have allowed normal trade movements tove her assertion that Pakistan's rupee was over valued undee new circumstances. On the contray she made this issue a ter of prestige and closed those very channels through whi'akistani rupee would have vindicated itself *vis a vis* the Indiaipee. The fact was that India's pride was hurt when she fo that Pakistan possessed a much sounder economy than herselfakistan whose economic doom was predicted at the time of irth by Indian Politicians. In order to prove that Pakist balance of payments position was not sound India snappel trade links with that country. India knew that most ofe favourable balance of trade of Pakistan was due to her erts of raw jute to India. She therefore refused to purchase istan's jute, ostensibly on the ground that at the new rate exchange the price of raw jute was not economical for the Indjute mills. This stand was proved hollow when she raised export duty on hessian from Rs. 80 Rs. 350 per ton, l increased to Rs. 750 and again to Rs. 1500 per ton. was clear that if jute manufactures could be sold af paying such a heavy duty they could also bear a littleavier charge on the raw material. The real reason, howr, was that India wanted to create a crisis in East Bengal so t the Pakistan Government would be forced to revise her cion regarding the ratio. Moreover, by creating an unfavoue balance of trade for Pakistan India wished to

prove to the world that Pakistan's decision was not justified on ecnnomic grounds not succeed in these designs. The jute et by prompt action on the part of the Pakistan Government and later trade statistics showed that the balance of trade was in favour of Pakistan in spite of a serious fall in Indo-Pakistan trade. Then India started saying that balance of trade was not the only item in the balance of payments Theoratically this might have been right, but in the case of Pakistan the invisible items were negligible. As regards payments to India for evacuees property, that matter was still under controversy and should have been kept out while pronouncing on the ratio Pakistan could adjust her trade policy to future needs if necessary. There was no justification of devaluation for items which were still a matter for future decision.

As regards other expectations of Pakistan these also on the whole have been realised There have been a downward trend in general prices, especially food prices in East Bengal, thus saving the masses from the evils of inflation The prices of impotted consumers goods like cloth have not gone down as much as they should have on account of certain flaws in the issuing of import lincences, which the Government has been trying to set right in recent months Pakistan has been able to import larger quantities of machinery and at cheaper rates than she could have done if the Pakistan rupee had been devaluated. To compensate the loss of her trade with India Pakistan has been able to develop trade relations with a large number of other countries The devaluation crisis has been a blessing in disguise It has made Pakistan realise the dangers of her economic dependence on India early in her independant life, so that the economy of the new state may be adjusted from the very beginning to broader international trade contacts. And Pakistan has not been slow to take advantage of this opportunity.

20. Pakistan's Trade Relations with Contries other than India Pakistan has entered into the following Trade agreements with countries other than India.

1. Trade Agreement between Pakistan and occupied Japan dated 5th June, 1948.
2. Trade Agreement between Pakistan and Czechoslovakia dated 21st October, 1948.
3. Trade Agreement between Pakistan and Poland dated 4th April, 1949.
4. Trade Agreement between Pakistan and Egypt dated 24th May, 1949.

5. Trade Agreement between Pakistan and France dated 29th November, 1949.
6. Trade Agreement between Pakistan and West Germany dated 19th December, 1949.
7. Trade Agreement between Pakistan and Czechoslovakia dated 30th December, 1949.
8. Trade Agreement between Pakistan and Occupied Japan dated 31st December, 1949.
9. Trade Agreement between Pakistan and Poland dated 5th July, 1950.
10. Trade Agreement between Pakistan and Switzerland dated 20th July, 1950.
11. Trade Agreement between Pakistan and Austria July, 1950.
12. *Trade agreement between Pakistat* and *Hungary* December, 1950.

All these Agreements follow about the same pattern. The contracting parties extend to each other the most favoured nation treatment e.g., in the matter of favours, privileges, immunity in respect of custom's duties, taxes and and charges on import and export, or on international transfers of payments for import or export, as also the methods of levying such duties and charges etc. Wherever relevant, reciprocal privileges are extended to each other's ships in each other's ports in respect of taxes, charges, duties etc. Permission is given to each other's nationals to acquire patent rights and copy rights and to register new designs and trade marks within its territory. Lists of articles with their quantities are, attached usually in the form of Schedule 'A' (exports from Pakistan) and Schedule 'B' (exports from the other contracting party) promises are given to facilitate the export and import of these articles in the given quantities through granting of necessary licences or quotas as the case may be.

The list of exports from Pakistan contains Pakistan's main product s like jute, cotton, wool, hides and skins, tea, sports goods etc.

The list of imports into Pakistan is more varied and also varies with the particular country according to what the country concerned can supply. For instance, the Agreement with Switzerland provides for such exports to Pakistan as chemicals and drugs, wacthes aud clocks, tools and workshop equipment, machinery, dyes and tanning material, cotton, rayon and silk piece-goods and yarn. Agreement with Poland provides for the import into Pakistan of articles like coal, matches, metallurgical materials, textile and agricultural machinery, cast iron, pipes etc.

The one with Ausrria alms at getting for Pakistan goods like minerals (graphite, magnesite etc.) wooden fibre board, cotton piece-goods, paper board and paper products, steel, tools and working implements, motors and engines, locomotives, telecommunication equipment etc. The one with Czechoslovakia provides for the import of diesal engines, equipment and machinery (textile, sewing machines, sugar mill machinery, tractors etc.) fire arms and ammunition, motor cars, buses and motor cycles, cotton fabrics, piece-goods and prints, woollen fabrics etc.

The agreement with occupied Japan provides for the import into Pakistan of cotton piece-goods, cotton yarn, spindles, woollen textile machinery, hydro-electric plant and equipment, bicyles, iron and steel manufactures, electrical goods, paints and warnishes, brass and copper manufactures, rolling stocks, optical goods, dyes etc.

We have given these details to show the kind of things Pakistan requires from the outside world in exchange for her raw produce. In the last chapter a statistical study has been made of the trends of trade with countries other than India. Pakistan's trade relations are thus expanding on a world scale. Many things like coal, steel goods, cotton textiles and matches which India could easily have supplied to Pakistan are now being imported in increasing quantities from other countries

As regards our exports, *it is true* that until the devaluation crisis our main market, specially as regards raw jute and raw cotton, was India The quantities purchased by other countries were relatively small. But this was not due entirely to the paucity of demand on the part of such countries for Pakistan's jute and cotton. It was partly because Pakistan through agreement with India had committed herself to supply specified amounts to that country. It was the surplus left after the Indian demand was met that used to be allotted in the form of quotas to other countries. Another difficulty especially as regards raw jute export was that of port foreillities. This was partly met by Pakistan through sending her jute *via* Calcutta pending the extension of the handling capacity of the port of Chittagong. Now, in the first place, when India refused to lift Pakistan's raw jute and raw cotton, these were sent to foreign countries in larger quantities and the post-devaluation trade figures show that this is being done. For instance, during the period from July 1950 to June 1951 Pakistan expected to export 40 lakh bales of jute to countries other than India against only 17 lakh bales during the corresponding previous period. Our cotton exports have reached record heights. Both these products are in short supply in the

world. Secondly, though Pakistan has been put to a lot of inconvenience on account of non-availability of Calcutta for exporting her raw jute, the handling capacity of Chittagong has been considerably increased (from 6 lakh tons to 20 lakh tons in 3½ years) and under the new plans it will be further increased (to 38 lakh tons). Moreover, a supplementary inland port (*ie.* Chalna) is being developed to divert some of the traffic from Chittagong. When all these developments have taken place there will be a problem but not so acute of finding alternative markets of Pakistan's jute and other products if India adopts a similar attitude again.

21. General Agreement on Tariffs and Trade and other International Contacts. Apart from the agreements mentioned in the preceeding section, Pakistan is one of the original 23 contracting parties to the General Agreement on Tariffs and Trade. A delegation was sent by Pakistan to the Third Contracting Parties and the Second Round of tariff negotiations held at Annecy (France) in 1949. At this meeting 11 new members took part in tariff negotiations with the original members. Out of these Pakistan negotiated tariff concessions with Italy, Sweden, Finland and Denmark. She received tariff concessions from them on cotton seeds cake, hand sewn foot ball covers, animal gut strings for sport goods, tennis rackets, hides and skins of sheep and goats, badminton rackets, cotton uncorded, and jute. In exchange Pakistan gave concessions on marble and pumic stone, potassium chlorate, potassium pereblorate and perchloric acid, wood pulp, news prints, cordage, rope and twine of soft hemp, and prefebricated timber houses.

Pakistan became a member of the International Customs Tariff Bureau Brussels as early as 1947. At first she was placed in the 4th category but due to her increased trade with foreign countries has now been placed in the 2nd category.

Pakistan has taken further steps to develop international contacts for the purpose of promoting her trade with foreign countries. With a view to promoting trade agreements Pakistan has been receiving trade missions from other countries and has been sending similar missions to foreign countries. Trade missions have visited Pakistan from France, U.S.S.R., India, Japan, U.K., and Argentine. Pakistan's trade delegations have visited West Germanv, Czechoslovakia, Italy, Switzerland, Austria, Poland and Egypt. Most of these visits led to signing of trade agreements already noted.

23. Pakistan's Trade Relations with U.K.—The United Kingdom has always been one of the most important customers

of Pakistans' produce and the greatest source of her imports. After the trade deadlock with India the importance of United Kingdom in our trade become still greater. The following statistics indicate how important U. Kingdom is in this connection.

Sea borne Trade Rs lakhs.

	Imports			Exports Pak Merchandise		
	All countries	U. K.	% share U K.	All countries	U. K.	% share U. K.
1948-49	109,37	27,01	25%	85,62	14 81	17.3%
1949-50	111,40	34,77	31 2%	77,20	17.16	22.2%
1950-51 (April to August)	44,07	12.27	28%	53,81	7.28	13%
August 1950	12,15	3.25	27%	12,30	1 61	13%

It will be seen that in 1949 50 as compared with 1948-49 United Kingdoms' share both in our imports and exports increased substantially. We got about one-third of our total imports from that country and sent about one-quarter of our export to it. In the current year 1950 51 U. Kingdom's percentage share in our exports has fallen but the monthly average is higher than last year. This means that exports to other countries, due to diversion from India has increased at a higher rate than to U K. Imports from that country have kept up Both in imports and exports the United Kingdom leads the list of all the countries during the current year.

Pakistan—U. K. trade relations are regulated by the Trade Agreement of 1939 which we have inherted from pre division India This Agreement replaced the Ottawa Agreement which had been rejected by the Indian Assembly in 1936. It was an improvement on the previous Agreement because it narrowed down the scope of preferences granted by India to British goods while the preferences granted by Britain to Indian products were kept more or less the same This Agreement and the Act embodying its provisions were both rejected by the Assembly (the Muslim League remained neutral) and the Act had to be certified by the Governor-General The Agreement, however,

was not unfair to India, the rejection was more due to political reasons.

According to this Agreement India had to accord a preference of 10% to a number of items of imports of British goods like chemicals, paints, remnants of piece goods, woollen carpets, sewing machines and 7½% on motor cars, motor-cycles and scooters, cycles and omnibuses. Most of these goods were not being produced in India and hence did not compete with Indian product.

The United Kingdom on the other hand agreed to continue the previously held concession of free entry of certain Indian goods like lac, raw jute, mica slabs, myrobalans etc. Further, the following concessions were granted :—

(*i*) A preference of 10% ad valorem to bones, linseed, castorseed, ground nuts, leather (undressed), coir yarn, soya beans and spices.

(*ii*) A preference of 15% among other things to certain Jute manufactures. Among the articles in this list were cordage, cables, ropes and twine, castor oil, rape seed oil, linseed oil, groundnut oil, leather (dressed) parafin wax.

(*iii*) A preference of 20 per cent on coir mats and matting, cotton manufactures and certain jute manufactures like sacks and bags.

(*iv*) A preference at specific rates to magnesium chloride, hand made knitting carpeting and floor rugs, coffee, tea and rice.

A clause which led to a lot of controversy and criticism at the time related to duties on cotton piece goods. A sliding scale of duties was fixed for such goods which was linked on the one hand with the export of Indian cotton to the United Kingdom and on the other with the import of cotton piece goods from the United Kingdom into India.

It will be seen from the above provisions that the Agreement need drastic revision when applied to Pakistan. Most of the goods on which preference is granted by U. K. are not exported from Pakistan. On the other hand Pakistan continues to import the goods on which Pakistan has to grant preference, the Agreement must be revised in the light of the new circumstances and needs of our country.

It would be unwise however to scrape the preferential idea altogether. In the first place after the trade deadlock with

India our trade relations with U. K. have received new importance and significances. Secondly we belong to the sterling block which position gives us certain privileges along with certain responsibilties. Thirdly, we have a substantial amount of our assets in the form of sterling balances kept in London. These have to repatriated in accordance with mutual agreements Trade links and increasingly growing trade links with the U. K. and the Commonwealth are, therefore, to our advantage. At the moment the renewal of the Agreement is under consideration by the two Governments. Let us hope a new agreement satisfactory to both the parts will be signed.

24. Conclusion The study of the trends in foreign trade movements and in trade relations with India and the rest of the world leads to the conclusion that Pakistan is gradually but decidedly shaking off the limitations on her economy placed by the fact that this country was carved out of a bigger whole, which was developed in the past as one economic unit. It was natural that the economies of the territories which now form two independent states were complementary, just as the different parts of the same country usually are. This complementary nature of the economies, however, was artificially developed There was nothing compelling or organic about it.

Pakistan would gladly have continued this relationship, at any rate for some time to come, since her jute and cotton on which depended the prosperity of her agricultural masses were finding ready markets in India. And further because Indiacould supply more conveniently and cheaply Prkistan's essential requirements in cotton piece-goods, jute manufactures, coal, sugar, matches, iron and steel products and several other articles. It is true that ultimately this relationship could not have lasted, because Pakistan sooner or later would have developed her own industries.

India on the other hand was anxious that this colonial relationship between her and Pakistan should be perpetuated. Hence her attempts to force Pakistan by direct and indirect pressures to enter into a custom's union preferably an economic union with herself. This pressure was brought about by denying Pakistan her legitimate claims on the share of jute export duty and the rebates on excisable articals which India was granting to other countries. Further pressure was brought about by withholding essential supplies from Pakistan, especially of coal and iron and steel goods at the critical post-partition period.

When Pakistan refused to bend India became a little more conciliatory on account of her need of Pakistan as a source of raw jute and cotton and market for her manufactures. But the devaluation issue again stirred her up and led to a deadlock in trade relations. This continued for seven months and was partially broken by the need for relieving political tension, which was threatening to result in an active military conflict, which both the countries wished to avoid. But she never gave in over the matter of the ratio until compelled by international developments.

To force Pakistan to revise her decision regarding non-devaluation of her rupee India tried to create a crisis by refusing to buy Pakistan's jute and cotton, by refusing to send Pakistan coal and other essential articles, by Propaganda on an international scale against the soundness of Pakistan's economy. India was convinced that Pakistan could not exist without India purchasing her raw jute. But Pakistan was able to meet. all these threats and the crisis created by India.

India's attitude forced Pakistan to look to other countries for selling her raw materials and for purchasing her essential imports. This has led to a steady diversion of trade away from India and towards a large number of foreign countries with which Pakistan has established trade relations through bilateral agreements. Perhaps this has been all to the good because economic dependence upon a single counry is most dangerous for any country.

APPENDIX TO CHAPTER XVIII

INDO-PAK TRADE AGREEMENT OF 26th FEBRUARY, 1951

This agreement provides for the import and export of commodities between the two Dominions. Three Schedules are attached to the Agreement. The first contains the list of all essential commodities to be exchanged between India and Pakistan. The maximum quantities or values of such commodities and the periods during which they have to to imported or exported have been specified. The food grains are detailed in the third schedule with similar specifications. The second schedule contains 50 non-essential commodities in the case of which no quantitative or monetary maximums and no time limit has been fixed.

The first schedule has been broken up in to two columns one [illegible] upto the end of June [illegible] for the period from [illegible] he commodities contained in this schedule are open to re-export. The main items of imports and exports with quantities and time limits are tabled below :

Commodity	Period. 26th Feb., 1951 to 30th June, 1951	Period 1st July, 1951 to 30th June, 1959	Total 16 months
Coal	6 lakh tons	15 lakh tons	21 lakh tons
Hard Coke	10,000 tons	——	10,000 tons
Soft Coke	5,000 tons	20,000 tons	25,000 tons
Pig Iron	*6,400 tons*	*20,000 tons*	*26,400 tons*
Iron and Steel products	7,000 tons	36,000 tons	43,000 tons
Cement	25,000 tons	75,000 tons	1 lakh tons
Paper	1,000 tons	5,000 tons	6,000 tons
Mustard Oil	5,000 tons	15,000 tons	20,000 tons
Rubber tyers and Tubes[1]	Rs. 5 lakhs	Rs 20 lakhs	Rs 25 lakhs
Cotton cloth	nil	75,000 bales	75,000 bales

(1) Other than cycle tyres and tubes and giant and non-standard tyres and tubes.

B—EXPORTS FROM PAKISTAN TO INDIA

Commodity	Priod. 26th Feb., 1951 to 30th June, 1951	Period. 1st July, 1951 to 30th June, 1952	Total. 16 months
Raw Jute	10 lakh bales	25 lakh bales	35 lakh bales
Cow hides	250,000 pieces	1,000,000 pieces	1,250,000 pieces
Sheep skins	200,000 pieces	600,0000 pieces	800,000 pieces

No meximmums for cotton have been specified in the schedules as the Pakistan Government have at present no destinatsonal quotas for cotton. India has been allowed to buy freely in the Pakistan cotton market. It has been provided however, that if and when the Government of Pakistan decides to impose destinational quotas, the quota for India would be fixed at 4 lakh bales for the cotton season 1951-52

Among the commodities listed in the second schedule are : fish, vegetables, fruits, eggs, cigars, bidis, milk and milk products, washing soap, umbrellas, betel-nuts, cotton-seeds, firewood, matches, paints and varnishes. There will be no import or export restrictions or control on these commodities. It is only in the case of firewood that a quantitative limit has been imposed (of 20,000 tons) as its export from East Pakistan to India.

The third schedule contains details of export of food grains from Pakistan to India. The agreement provides for the export of wheat, rice and gram from Pakistan to India thus :

Upto the end of June, 1951 :

East Pakistan will export 24,000 tons and West Pakistan 1,34,000 tons of rice.

Upto the end of December, 1951 :

India will get from West Pakistan 1,41,600 tons of rice and upto October, 1952 an additional 1½ lakh tons of rice.

As regards wheat India will be supplied :

9,000 tons of wheat flour "immediately" by West Pakistan.

16,000 tons of wheat upto the end of June, 1951 by East Pakistan, and

2,75,000 tons of wheat upto October, 1952 by West Pakistan.

India will further get 20,000 tons of gram from West Pakistan upto April, 1952.

The prices of the food grains have not been mentioned in the Agreement, but it is stated that they have been separately agreed between the two governments.

The two governments have agreed that export and import facilities granted by each country to the other will not be less favourable than those applicable to any other country in the sterling soft currency area.

In respect of such commodities as are subject to export or import licences, the two governments will grant those licences upto the quantitative or monetary limits specified in the schedules.

It is further provided that the two governments will hold periodical consultation to consider matters as might arise in connection with the supply of the commodities to each other during the currency of the Agreement; or to alter, extend or supplement the three schedules appended to the Agreement.

In case there is any dispute regarding rights and obligations under the Agreement the matter will be referred to the Food Secretaries of the two Governments.

The Agreement extends from 26th February, 1951 to 30th June, 1952.

Simultaneously with the signing of the Agreement the long standing dispute between the Dominions regarding the value of the Pakistan Rupee in terms of the Indian Rupee was also settled. The Indian Government recognised the ratio of the Pakistan rupee to the Indian rupee at Rs. 100 Pakistan-Rs. 144 Indian for all current and trade transactions.

Procedure on current transactions will be that the State Bank of Pakistan will sell and buy Indian rupees to and from authorised dealers in Pakistan. Similarly the Reserve Bank of India will sell and buy Pakistan rupees to and from the authorised dealers in India.

The Indian rupees earned by Pakistan from current transactions will be converted into free sterling "without any restrictions what so ever at any time at the option of the State Bank of Pakistan".

Evalution of the Agreement—The Agreement on the whole has been well received in the two countries. In Pakistan, India's acceptance of the Pakistan rupees ratio has been regarded as a vindication of Pakistan stand in this respect. According to the Indian Finance Minister, on the other hand,

India has accepted Pakistan's ratio because "the economic situation in the world has undergone a radical change in favour of primary producing countres like Pakistan." Commerce of Bombay expresses a similar view. "Our own view in regard to this matter, however, is" says this paper, "that the decision no matter how unpleasant from a purely sentimental point of view, is nevertheless justified by the altered economic facts between September, 1949 and today.[1]" It is argued that in September, 1949 at the then floor prices fixed for Jute by Pakistan India could not sell her Jute manufactures at profitable prices. "To-day the position is that even after levying an export duty of Rs. 1500 per ton the present price of Jute manufactures leaves a very clear margin of profit to the exporter and much larger quantities than are available can still be marketed.[1]"

This is only a part of the truth. Even in the immediate post devaluation period India was earning high profits in spite of a high export duty on Jute manufactures and could afford to pay a slightly higher price for Jute. The real fact is that India hoped that by putting pressure through not lifting Pakistan's Jute and starving her of coal, iron, steel and other essentials she would be able to compel Pakistan to devaluate her currency. As a last hope she thought the I.M.F would refuse to accept Pakistan's ratio. When India found that Pakistan was able to meet her Jute crisis successfully and that there was no sign of the I.M.F. giving an early decision on this matter she thought it wiser to face realities. The developments in the international situation have further compelled her to revise her attitude in this matter. The set back in Korea to the forces of the United Nations increased the fear of another world war, started a re-armament race ; there has been a scramble for raw materials specially for purposes of stock piling. This has turned the terms of trade in favour of raw material producing countries. Pakistan's raw cotton, raw jute, wool, hides and skin are in great demand. This has strengthened our balance of payments position and has left no doubt even in India's mind that Pakistan would be able to maintain the value of her rupee. Further, India has realised that if she continued to sulk and refused to accept Pakistans ratio olny she would be the loser. While Pakistan would be able to sell her jute to the growing jute manufacturing rivals of India the latter would lose a golden opportunity of making high profits from greater exports of jute manufactures. When it was realised

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(1) Commerce: March 3, 1951 P. 366.

by India that these exports would also earn hard currency for her, it was regarded foolish to persist in her transigence merely for considerations of prestige. Whatever the reason, however, it has been a wise, though belated decision on the part of India and has paved the way for better relations between the two countries. The recent trade agreement is one expression of this new co-operative relationship.

Now as regards the terms of the trade agreement itself, if they are honestly implemented both parties will gain. Schedule I. contains the essential commodities that are needed by each country from the other. Pakistan has been finding it very difficult and expensive to import coal, iron and steel goods etc. from overseas countries. India's main headache has been the raw jute, the scarcity of which had caused wide spread unemployment in her jute industry and had considerably increased the burden of overhead charges in factories working only a fraction of their full capacity. Moreover, the fall in the export of jute goods had adversely affected India's dollar earning capacity. For Pakistan also it will be more convenient and profitable to sell her jute to her neighbour than to overseas countries where the market is still not fully developed. The strain on the Chittagong port will also be relieved, because the jute will go to India by the overland route. Further the adminstrative and financial arrangements improvised for meeting the jute crisis will also become unnecessary to a very large degree thus saving considerable energy and expense. With greater flow of all kinds of goods between the countries artificially created scarcities will be relieved which will be to the benefit of the mass of the people. There may be some rise in the price of food grains in Pakistan but this is likely to be more than compensated by a fall in prices of commodites like cloth, coal, iron and steel good paper etc. which will be available in larger quantities from India.

Another attractive feature of the Agreement is the arrangementas regards payments. We have already discussed the defects, from the point of view of Pakistan, of the Payments Agreement of June, 1948. Even the modified Agreement of June, 1949 which expired in June, 1950 envisaged payments of the favourable balance above a certain limit in the form of blocked sterling. The new agreement not only provides that all balances earned should be paid in free sterling but also lays down that the payment shall be made when desired by the central bank of the creditor country. Pakistan has always been a creditor country in this respect, because she has always exported more to

India than she has imported from that country. The new agreement ensures that any excess of balance due to Pakistan would be realised in terms of free sterling on demand on the part of the State Bank.

A word of caution, however, is necessary. India has been compelled primarily by the international situation to come to terms with Pakistan. The past history of Indo-Pak relations is not very reassuring and we have yet to see whether a complete change of hearts has occurred. While Pakistan should welcome every opportunity of developing trade relations with India she should not attempt to reverse the new trend towards greater diversification of her trade. It is unwise for any country, much less a raw material producing country, to become economically over dependent on any particular country. Moreover, India is not likely to give up her attempt to achieve self sufficiency in jute and if the demand for jute goods in the international market falls off it naturally will be Pakistan's raw jute which India will dispense with to the extent that she can do so.

APPENDIX II TO CHAPTER XVIII

PAKISTAN—U. K. TRADE AGREEMENT OF APRIL 1951.

Since this Chapter was printed a new trade agreement has been signed between United Kingdom and Pakistan which replaces the Trade Agreement of 1939 discussed in section 23 above. The tariff arrangements of the new agreement have been incorporated in the amended Tariff Act passed by the Central Legislature on 10th of April 1951. The main provisions of the Agreement are given below :—

(*a*) The Agreement abolishes preferences so far given by Pakistan to United Kingdom on 31 items which include motor cars, motor cycles, parts of these vehicles, apparels made of cotton piece goods and artificial piece-goods, fents, woollen carpets, floor rugs, shawls, iron and steel sections, iron and steel structures, railway track material, knitting machines etc.

(*b*) In the case of some items imported from U. K. the margin of preference has been reduced. These include certain iron and steel products, chemicals, paints, engineering products, cotton and rayon textiles. The margin in the case of cotton and rayon textiles has been substantially reduced from present 15 and 18 per cent. to 6 and 5 per cent. respectively.

(c) Preferences that the United Kingdom has agreed to give to Pakistan goods fall under four categories :—

(*i*) Those which will get preference at the rate of 10% *ad valorem*. These include bones, goatskins, undressed skins and hides, oil seed cake and meal.

(*ii*) Those accorded 15% *ad valorem* preference. Among these are box and willow calf, patent leather and machinery belting scrap of waster chrome and reptile leather.

(*iii*) Goods to which preference at the specified rate of 2d per pound is given. Tea is the only article in this category.

(*iv*) Sports goods and carpets. Different preferential rates have been laid down for different articles of this category in a schedule attached to the agreement.

(d) The parties have agreed to give the most-favoured common wealth nation treatment to each other's goods. Under this provision products not included in the present agreement but exported from Pakistan to the United Kingdom (or *vice versa*) will receive the same treatment as the products of any other common-wealth country.

(e) Both the parties have taken care to see that then commitments under the General Agreement on Tariffs and Trade are not violated.

(f) The Agreement is valid for 18 months and will be subject to termination at six months' notice by either party.

Elaborating the provisions of the agreement the Commerce Minister revealed in the Parliament the following facts :—

(a) Before the conclusion of this agreement the United Kingdom enjoyed preference on a volume of trade amounting to about Rs. 16 crores. Under the new agreement this volume has been reduced to Rs. 9 crores including a trade of Rs. 6 crores in textile alone ; and Rs. 60 lakhs in drugs and chemicals against the previous figure of Rs. 1.20 crores. The volume of trade on which Pakistan gets the advantage of preference under the new agreement is estimated at Rs. 4 crores.

(b) In terms of the value of the preference accorded, the value of preference given by Pakistan to the United Kingdom has been reduced from Rs. 178 lakhs to Rs. 65 lakhs and the advantage which Pakistan gets on its exports comes to Rs. 35 lakhs. The gap of Rs. 30 crores is accounted for by other advantages which Pakistan gets under the agreement. These estimates are based on past trade figures. In the future trade in articles to which preference has been given may be less, because of the lower rate of preference now accorded and because there is no longer a trade deadlock with India. This will reduce the value of the preference accorded by Pakistan.

(c) Other advantages conferred on Pakistan by the Agreement are :

(i) Recognition on the part of the United Kingdom Government of the need to maintain the present level of import of tea into the United Kingdom from Pakistan assures an off take of about 28 million pounds of tea per annum which represents a major portion of our export surplus. The price support that this will give to tea has been estimated at between Rs. 20 to 25 lakhs. This advantage is in addition to the advantage we get from the preference in the absence of which we would have to face strong competition in Britain with India and Ceylon.

(ii) In respect of the commodities and goods not included in the agreement, the Commerce Minister revealed that "we have been assured by the United Kingdom Government that they do not at present intend to impose any duty on

Pakistan goods which are now admitted free of duty into the United Kingdom."

We have already expressed our support of a suitable agreement with the United Kingdom including mutual preferential concessions. The Agreement that has been signed appears to be quite satisfactory from Pakistan's point of view. A large number of items have been excluded from the preferential list, in the case of others the rate of preference has been drastically curtailed. Pakistan will get preference for her exports to the U. K. The preference given to tea and sports goods will be especially valuable The most favoured common-wealth nation clause will protect our products from the common-wealth competition e.g. jute from India. It is wrong to think that our primary products do not require protection in external markets. Our monopoly is not so absolute even in jute. In the case of tea and sports goods preference will definitely help in extension of our exports. At any rate the agreement is only for a period of 18 months and in case it does not confer expected benefits on Pakistan, can be terminated at six months' notice.

CHAPTER XIX

FOREIGN TRADE

Balancing Our Payments.

1. **Introduction.** In the last chapter it has been argued that Pakistan had no problem of balance of payments until after the devaluation crisis, when India practically closed all normal trade channel with us. And that this was done for political rather than economic reasons. Previous to that date Pakistan had always managed to balance her accounts with the outside world and this fact was recognized by competent opinion even in India herself. It is quite true that during 1948-49 and 1949-50 our balance of sea-borne trade was against us to the tune of Rs. 15·93 crores and Rs. 25·42 crores respectively. But if we exclude the sea borne trade with India it was only in 1949-50 that we had an adverse balance of trade with the oversea countries and that to the extent of Rs. 16·96 crores. Our sea borne trade with India always showed an adverse balance, though including land borne trade we always had a favourable balance of trade with that country. With the resumption of Indo—Pakistan trade, therefore, it is expected that Pakistan's balance of payments position will be rectified. But the subject deserves study from the long term point of view.

2. **Balance of Indo-Pakistan Trade.** The table given below sets forth the balance of trade position both as regards our sea-borne and land-borne trade with India[1] :—

Indo-Pakistan Trade on Private Account.

	1948-49 Rs. crores.	1949-50 Rs. crores.	—decrease in 1949-50 over 1948-49 Rs. crores	per cent.
A—Imports :—				
By sea.	46·61	13·87	—32·74	70%
By land.	30·39	25·82	—4·57	12%
Total imports.	77·00	39·69	—37·31	49%
B—Exports :—				
By sea.	24·29	12·46	—11·83	50%
By land.	85·00	31·47	—53·53	63%
Total exports.	109·29	43·93	—65·36	60%
C—Balance :—				
By sea.	—22·32	—1·41	—20·91	
By land.	+54·61	+5·65	—48·96	
Total Balance.	+32·29	+4·24	—28·05	

1. Statistics taken from Vakil: Economic Consequences of Divided India P. 432.

The above table shows that (mainly as a result of the devaluation controversy and the resulting trade deadlock with India) our total trade with that country fell by 55% total imports falling by 49% and total exports by 60%. The sea borne imports and land borne exports fell more heavily than land borne imports and sea borne exports.

As regards the balance of trade the over all favourable balance was reduced from Rs. 32.29 crores to Rs. 4.24 crores, the sea borne negative balance fell from Rs 22.32 crores to Rs. 1.41 crores and the land borne positive balance from Rs. 54 61 crores to Rs. 5.65 crores. Thus in spite of a seriously reduced trade our merchandise balance with India was positive through out. But whereas in 1948-49 this positive balance was more than enough to counterbalance the adverse balance with countries other than India, it was not high enough in 1949-50.

So far we have taken Pakistan as a whole. The position for 1948—49 regarding the two wings of the country separately is given below :—

Indo-Pakistan Trade in Merchandise.[1] (Rs. crores)

	West Pakistan	East Pakistan
Exports from	32.09	77.20
Imports into	52.19	24.81
Balance	20.10	+52.39

Thus while East Pakistan had an export surplus of Rs. 52.39 crores West Pakistan had an excess of imports of the value of over Rs. 20 crores. This was due to the fact that our favourable balance with India was due mainly to the export of Jute from East Pakistan. India's refusal to lift Pakistan jute in normal quantities after the devaluation crisis was thus responsible for the reduction of Pakistan's export surplus with that country. After the trade deadlock with India, Pakistan had to depend more and more on countries other than India for the purchase of her imports and the sale of her exports. It would be instructive, therefore, to make a study of the trends indicated by overseas trade with countries other than India.

3. **Trade with Countries other than India.**—The following table sets forth by the month imports, exports and balance of sea borne trade of Pakistan with countries other than

1. Figures from Vakil op cit. P. 433.

India during the calender years 1949 and 1950 :—

In Rs. lakhs

	1949			1950		
	Imports	Exports	Balance	Imports	Exports	Balance
January	817	496	−321	581	871	+290
February	830	856	+ 26	504	873	+369
March	1067	582	−485	691	802	+111
April	900	489	−419	632	802	+170
May	1187	749	−438	777	1008	+231
June	858	441	−417	563	680	+117
July	971	323	−648	643	961	+318
August	1044	375	−669	1013	977	− 36
September	933	341	−592	1078	867	−211
October	609	447	−162	881	599	−282
November	622	408	−214	953	1113	+260
Total	9,838	5,507	—4331	8,316	9,553	+12,37

We may campare the pre-devaluation eight months of the year 1949 with post devaluation eight months of the year 1950 as under :—

	Imports	Exports	Balance
Jan—August 1949	7674	4310	—33,64
Jan—August 1950	5404	6974	+15,70

Thus the adverse balance of Rs. 33.6 crores for the first eight months of 1949 was turned into an export surplus of Rs. 15.7 crores, an improvement of about Rs. 50 crores. Taking 11 months of the two years the improvement was of the order of Rs. 55.7 crores during 1950 over 1949. The balance of trade with countries other than India turned in favour of Pakistan for the first time in December, 1949 when it was Rs. 3.92 crores. After that for every month until July, 1950 Pakistan had an export surplus with these countries. For the succeeding three months we had an adverse balance totalling Rs 5.29 crores. But even this compared favourably with the adverse balance of Rs 14.23 crores for the corresponding months of the previous year. The balance again became positive for November, 1950 but adverse for the closing month of the year, when it was Rs. 4.60 crores. Figures for January and February, 1951 are not yet available but it appears the balance has been heavily in favour of Pakistan. According to the Finance Minister of Pakistan for the period July, 1950 to February, 1951 Pakistan is having an export surplus of about Rs. 27 crores (1) most of

(1) Budgel Speech (1951—52) P. 2.

which must be due to our trade with countries other than India.

The favourable over all balance of trade has been due to the stiumlation of our export trade especially in raw cotton and raw Jute due to greater international demand for them on account of the situation created by the Korean War. The higher prices obtained specially for our raw cotton have increased the value even more than quantities of our goods exported and the terms of trade have moved in our favour.

4. **The Import Policy of the Government.**—The improvement in our trade balance is more significant because it has not been achieved by curtailing our imports. The import policy of the Government has been made progressively more liberal, so that as the Finance Minister pointed out in his recent budget speech, 'about 70% by value of all our commercial imports need no licence[1]." A reference to the table given above will show that comparing the first eleven months of the year 1950 with those of 1949, while impors were reduced only by Rs 15% export improved by 74%. Comparing the months of November of each year imports were higher by 53% and export by 173%.

The liberal import policy has been justified by the Finance Minister as a method of bringing down prices of consumer goods. No doubt the non-devaluation policy of the Government and liberalisation of imports have kept prices of consumer goods in Pakistan lower than would have been the case otherwise. There is, however, a general belief that much of the advantage of the non-devalution policy has gone to the trader and the middleman rather than the consumer. Complete data is not available for us to express a positive view on this point. The trend of prices for some months after the devaluation crisis was no doubt in the downwards direction although in recent months prices have been rising. International and national factors are intermixed here. The Korean war has had its impact on the prices of our exports and imports. The former due to greater demand for raw materials for stock pling etc and the latter due to shifts in production from consumer goods to articles of defence. In the country a potential for inflation has been created due to greater currency circulation as a result of the financing of increased exports of raw cotton and jute. The prices so far, however, have increased only moderately[1].

Budget Speech (1951-52) P 2

(1) The problem of prices is studied in a subsequent chapter. See Chapter XXIII.

While a liberal import policy has to some degree prevented an abnormal rise in prices in the country it is felt that it has also been a cause of frittering away of our foreign exchange resources. The recent improvement in our balance of payments position has been due to causes which are of an abnormal nature. Even as late as December 1950, the trade balance was heavily against Pakistan and any fall in the demand for our raw materials in the international market may again bring us into balance of payments difficulties. The recent trade agreement with India, however, is likely to make such a contingency rather remote. Even then a greater discrimination in our imports is called for from the long run point of view. Moreover our imports so far have been predominantly of articles of consumars' need especially luxuries of various kinds. *A very small proportion of the total value of imports can be* attributed to capital goods imports as the table given below indicates.

Imports on Private Account.

Items	1949-50 Rs. crores	1950-51 April-Dec. Rs. crores	Total for 21 months Rs. crores	% of Total
Machinery and Mill work ...	8.25	8.04	16.29	8%
Textile ...	47.18	37.22	84.40	41.5%
Other consumer goods ...	55.97	46.33	102.30	50.4%
Total imports ...	111.40	91.59	202.99	

Thus the value of textile alone was over 40% of the value of the total imports by sea. Capital goods were only about 8%. This state of affairs is not satisfactory.

5. **Invisible imports.** So far we have been talking of visible imports and even here large transactions on Government account especially on defence account have not been included. Complete data is not available to assess the correct balance of payment position of Pakistan. In a previous chapter we tried to assess the over all position for 1948-49, which was the year with the least disturbed conditions since the partition. We found that during 1948-49 the visible trade balance was in favour of Pakistan to the extent of Rs. 42'33 crores. The invisible items like net remittance for salaries, wages, profits,

rent, interest, shipping, banking, insurance were not accounted for. There is no data available about these items. Nor do we have any reliable statistics of the net export of treasure. But the most important item about which we have no information (for obvious reasons) relates to defence items like arms, ammunitions and munitions on Government account etc. On the basis of the defence budget one may put this last figure round about Rs. 30 crores a year, assuming that about half the total revenue and capital allotments are spent outside the country. Another Rs. 5 crores may be added in lieu of the rest of the invisible items. On the basis of these assumptions it would not be unreasonable to conclude that during the first 19½ months ending with March 1949 Pakistan was able to square her accounts with the outside world due to the large export surpluses earned during that period Upto June 1948, we were told by the Finance Minister, Pakistan's earnings of sterling exceeded expenditure by Rs. 21 crores. But during the next two years ending June 1950, we had to meet our foreign obligations from our sterling balances which were reduced by Rs. 90 crores during this period. It appears that the strain on our sterling reserves began during the year 1949-50. This, as we have already pointed out, was due mainly to our inability to earn trade surpluses with countries other than India sufficient to make up for the deficiency caused by the fall of our exports to India after the devaluation crisis. After November 1949, for 8 months we had a continuous monthly favourable balance of trade with countries other than India but this was not adequate to give us enough foreign exchange to pay for our invisible imports. Then followed three months of adverse balance, one month of export surplus and again one month of heavy adverse balance. The year, however, is likely to end with an export surplus which may be of the order of about Rs. 30 crores. But even then assuming that our net obligations on invisible import and defence account will be of the order of Rs. 40 crores, this surplus will not dispense with the necessity of drawing upon our sterling balances. Further it should be remembered that from the next year we have to start paying Rs. 10—12 crores to India in lieu of the debt of Rs. 300 crores that we owe to that country[1].

6. **Sources of Meeting our International Obligations.**— What are the possible sources from which we can meet our international obligations? These may be set out as under:

(1) For details regarding the origin of this debt see Chapter XXIV

For the purposes of the division of these balances and the funds in the Empire Dollar Pool[1] a financial agreement was signed between India and Pakistan on the eve of the partition. The principles according to which assets and liabilities were to be divided between the two countries are considered in a later chapter[2]. Here it may be noted that before allocation to Pakistan and India the balances were reduced by £ 276.5 millions in lieu of the surplus war material transferred to undivided India and the pensions payable to British servants of pre-partition days.

Periodic agreements have been signed between Pakistan and the United Kingdom according to which Pakistan's share of the balances is being gradually released. These agreements are noted below.

8. **U.K.—Pakistan Financial Agreements**.—The first financial agreement took place between India and the United Kingdom on the eve of the Partition in August, 1947 This Agreement covered the period upto 31st December 1947 and provided for Pakistan's share of the released sterling as £ 6 million. This Agreement required the Reserve Bank of India to open two accounts called No 1 and No. 2 Accounts with the Bank of England. The total sterling Assest were credited to No 2 Account. Of this a sum of £65 million was credited to No. 1. Account as initial release. Of this £35 million was for current purposes and £ 30 million as working balance. The balance in No : 1 Account could be freely spent in current transactions and could also be freely converted into hard currencies. No. 2. Account could only be used for agreed transfers of a capital nature and not for current purposes. Separate Accounts were later opened for Pakistan which were taken over by the State Bank of Pakistan from the Reserve Bank when the former came into being on 1st July, 1948.

The first Separate Financial Agreement between U.K. and Pakistan was signed on February 1948 which covered the first half of the year 1948. Under this Agreement £6 million were released to Pakistan for current transactions. In addition a working balance of £10 million and a sum of £4 million, the unspent

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(1) The Empire Dollar Pool was created during the war to conserve foreign exchange resources of the British Empire for war purposes It is a fund containing foreign exchange resources, of the different sterling area countries with the Bank of England Members of the sterling area can obtain their foreign exchange from this fund and they are expected to keep their foreign exchange earnings in sterling with this fund.

2 See Chapter XXIV.

to be made by India, by agreement between the two Dominions. This was to be reimbursed, so far as Pakistan's liability was concerned, to India in blocked sterling. It was also agreed that a share of the recoverable war expenditure payable to undivided India would be paid directly by U.K. to Pakistan in blocked sterling. This came to Rs. 11 crores as Pakistan's share.

As regards sterling pensions payable by Pakistan's Central and Provincial Governments Rs 10.89 crores was to be funded with H.M.G. in block sterling. In return that Government would make available to Pakistan sterling annuities during the next fifty years to enable pensionary and provident fund liabilities being met from year to year.

The next Agreement covering the period July 1949—June, 1950 was signed between the Pakistan Government and H M.G. on 5th August, 1949. Under this Agreement £ 12 million were released for general purposes and an additional £ 5 million for meeting expenditure on refugee rehabilitation.

An important change was introduced with regard to the allocation of hard currencies from the Central Reserves of the Sterling Area (Empire Dollar Pool). Due to heavy drain on the central gold and dollar reserves, in the Commonwealth Finance Minister's Conference it was decided that dollar expenditure during July, 1949—June, 1950 should be limited to their expenditure during the calender year 1948. An exception was made in the case of Pakistan for whose case the period of July, 1948 to June, 1949 was fixed as the basic year for the calculation of the 75 percent limit.

We have already referred to the Payments Agreement with India signed on 30th June, 1948 for one year, later modified and renewed. According to this Agreement the State Bank of Pakistan and the Reserve Bank of India were required to purchase and sell Indian and Pakistan rupees respectively at par without limit to any party desiring remittance of funds from one Dominion to the other. No restrictions were to be imposed on the transfer of currency from one Dominion to the other, but if the accumulations of one bank exceeded Rs. 15 crores the excess was to be paid first by a set off against the balances of the other bank and any further excess by payment in sterling. Since Pakistan exported more to India than she imported from her Pakistan's balance with the Reserve Bank of India accumulated. On 11th February, 1949 our balance with

the Reserve Bank of India stood at Rs. 21.39 crores after a payment of Rs. 5.17 having been received by us in free sterling. By September, 1949 Pakistan's balance increased further so that Rs. 15 million in free sterling and £ 1,485,000 in blocked sterling were due to be transferred to Pakistan account in lieu of Pakistan's favourable balance with India.

On India's refusal to pay this sum, at Pakistan's request, the United Kingdom Government allowed Pakistan a temporary release of £ 14 million.

Under this Agreement in addition to the £ 14 million temporary release which was made permanent, a further amount of £ 15 million was transferred to Pakistan's No : 1 Account. In addition a sum of £ 2.5 million was released to enable Pakistan to meet her exceptional requirements of foreign exchange upto the end of September, 1950, arising from the then existing state of trade and payments with India. This arrangement could be further reviewed on Pakistan's request if the Indo-Pak trade did not flow freely.

Pakistan separately agreed to limit her dollar expenditure during the period from July 1, 1950 to June, 30, 1951.

Thus the total releases of sterling in favour of Pakistan so far have been as follows :—

July, 1947 to June, 1948	£ 16 million.
July, 1948 to June, 1949	£ 10 million.
July, 1949 to June, 1950	£ 17 million.
Temporary Release now made permanent	£ 14 million.
July, 1950 to June, 1951	£ 17.5 million.
Total	£ 74.5 million.

Thus upto 30th June, 1951 Pakistan will have got released £ 74.5 million worth of sterling from her sterling balances including £ 14 million drawn in lieu of India's obligations which will be adjusted when sterling is received from India. It has been estimated that after necessary adjustments having been made Pakistan's share of sterling balances earned during predivision period came to £ 176 millions[1]. Thus after the release of £ 74.5 million the balance left in the blocked account is £ 101.5 millions. We have ignored the interest earned there on : During the two years ending 30th June 1951. Pakistan will have drawn (if nothing more is released) on the average about £ 25 millions a year. At this rate the remaining sterling in this account will last another four years and will be exhausted by June, 30th 1955.

(1) 'Wealth' Vol I No. I p. 6.

If, however, due to greater demands on these assets larger amounts are released by the United Kingdom these balances could be exhausted earlier. But the whole of this amount is not available for actual expenditure because a good amount must be kept as cover against the currency notes issued by the State Bank as we shall see.

9. The Rate of Sterling Expenditure.—So far we have only talked of the release of Sterling from the blocked account to the current account But release does not necessarily imply expenditure and all expenditure does not come from this account. There are current earnings from our net exports to be taken into account. To assess the amount of sterling available and already spent by us it is necessary to examine the sterling assets of the State Bank of Pakistan.

The total sterling transferred from the Reserve Bank of India to Pakistan between August, 1947 to June, 1949 amounted Rs. 190 crores.[1] Upto April, 1949 very little of this was actually spent. The sterling assets[2] of the State Bank stood as follows on the various dates as indicated .—

	Rs Crores			
	Issue Dept.	Banking Dept.	With R B of India.	Total
27th May, 1949	89	82	4	175
2nd Sep. 1949.	79	70	3	152
28th April, 1950.	67	32	3	102
8th Sept. 1950.	62	32	3	97
29th Dec. 1950	62	44	3	109

The above table indicates.—

Total reduction upto Devaluation crisis=Rs. 190−152 crores
=Rs. 38 crores.

Total reduction from Sept. 1949 to April 1950=50 crores.

Total reduction during 1949−50 =88 crores.

Deduct Rs. 42 crores due to revaluation[3] =46 crores.

Thus actual expenditure of sterling during the year 1949-50 was Rs. 46 crores The over all adverse balance on merchandise account for the year was Rs. 13 crores. This leaves Rs 33 crores for invisible items and Defence items.

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(1) Vakil: op cit P. 439

(2) This includes cash, short term sterling accounts and Balance with the Reserve Bank of India

(3) This represents the loss due to fall in the rupee value of the sterling on account of the latter's devaluation.

It would appear therefore, that Pakistan was exhausting her sterling assets at the rate of about Rs. 55 crores a year after the devaluation of the pound sterling took place. It would have been impossible to maintain this rate of expenditure especially when we know that very little of this valuable foreign exchange was being spent on the import of capital goods. This indicated the necessity of meeting the situation partly by a discriminatory control over our imports and partly by stepping up of our exports.

10. **Stepping up our Exports.**—In recent months, as we have already noted, Pakistan's export trade has received considerable stimulations. The value of our exports has especially shown a large increase. Raw jute, raw cotton, raw wools hides and skin, all our important exportable raw materials have met with increasing international demand at increasing prices. There have been record exports of raw cotton in spite of heavy export duty which was increased from Rs. 60 per bale to Rs. 180 per bale and again to Rs. 300 per bale in about a month's time in Oct.-November, 1950 yielding about Rs. 25 crores of additional custom's revenue. Foreign countries other than India will have purchased about 40 lakhs bales of raw jute this season as compared to 17 lakhs bales last season. In spite of 25% export duty imposed on it in December last the export of wool has also shown considerable increase and so is the case with hides and skins. We are thus expecting a high export surplus during the financial year just ended in spite of trade deadlock that prevailed with India during the major portion of this year and inspite of a liberal import policy. In fact our sterling assets had increased to £ 152.7 million[2] by 23rd of March 1951. It would appear, therefore, that talking of stepping up of our exports is now a bit out of season. More over, it may be said, that, as has already been argued by us, our balance of payments difficulties were mainly the creation of India's attitude towards our currency policy and now that India has recognised the par value of our rupee and a Trade Agreement with her promises the normal flow of trade between the countries, the emergency has passed away. No doubt there is a considerable element of truth in this way of reasoning. But it must be remembered that our export boom is due to temporary causes. It is because of this realisation that Pakistan's Finance Minister has so wisely used the big surplus in the Budget, (due to greatly increased customs' revenue), not so much for tax relief as for the creation of various developmental funds. As regards the ending of trade

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(2) Including cash, short term sterling account and balance with the R. B. of India.

deadlock with India it is quite well come; but we should not let it influence our long term policy. From our trade relations with India in the past it should be clear that the latter country will keep the channels of her trade with Pakistan open only so long, and in the manner that, will suit her own interests The main article that India wants from Pakistan is raw jute and strenuous efforts are being made in that country to make the jute industry independent of Pakistan's raw material and partial success has already been achieved.

The basic weaknesses of our economy in this context are two (a) Pakistan's export consiss of a few primary products, the demand for which is subject to considerable fluctuations from the very nature of these materials (b) The markets for these materials are a few countries any one of which by changing her demand under political or economic pressures can throw our economy and out finances out of gear. Our over-dependence on India for the sale of raw jute leading to an economic and financial crisis in East Bengal in the autumn of 1949 offers a good example of what can also happen, though perhaps not in the same degree, in the case of our other exports

Our commercial policy must aim at the elimination of these basic weaknesses. To some extent this position has been rectified during the last year or so A much greater number of countries now share our exports than they did before the devaluation crisis. Moreover, there is a slightly greater diversity in our exports. The danger, however, is that the ending, for the time being, of the trade deadlock with India might make us complacent and these new tendencies may be reversed. This should not be allowed to happen. Through well planned and positive action an attempt should be made to save our economy from over-dependence upon any particular county. Moreover, through diversification of production we should achieve greater diversity in our exports so that we do not depend for our economic and financial stability upon just a few primary products. We are glad to notice that the Government is fully alive to the situation. What is wanted is a more aggressive pursuit of the policies aiming at these objectives

We have already referred to the policy of entering into bilateral trade agreements with foreign countries. This policy should be pursued on a wider scale. More trade missions and delegations from our potential markets should be invited and our own missions sent abroad. We must etablish our Embassies and appoint Trade Commissioners in all important countries. The policy of appointing Trade Commissioners has been followed rather too lieisurely and hesitatingly. A [illegible] sel[illegible] of

the personnel for these posts is neccessary. People with high cultural background along with practical common sense should be selected. Safegaurds are necessary against the possibility of businessmen seeking these jobs for promoting their individual business interests.

No amount of international trade contacts will help, however, unless the quality of our goods is kept high. We have now a Central Jute Committee and a Central Cotton Committee. Similarly we have a Jute Board and a Cotton Board. Similar Boards and Committees should be formed in the case of other imporrant exportable raw materials. Recently a Pakistan Standards Institution has been formed. Under their guidance the quality of the product should be improved and maintained at a standardised level. The problem of jute is the creation of greater baling capacity, greater transport facilities and extension of port and shipping facilities. The long period problem of raw cotton is the substitution of the long staple (American) variety in place of the short staple (Desi) variety which will improve quality as well as yield, improvements in the methods of transport and marketing and enforcement of safeguards against deterioration through mixing, provisions for better grading, and storage facilities. In the case of wool a scheme for its proper shearing and greading has already been evolved and needs implementation. Similar problems of ensuring good quality through proper handling and grading have ot be tackled in the case of hides and skins. The same applies to the grading and blending of tea. The Government of Pakistan a few months ago constituted a Pakistan Tea Board which is charged with the task of promoting the sale and consumption of Pakistan tea at home and abroad. We have to see that we offer the best quality products at competitive prices especially under th present conditions when we have to compete in the case of some of our products like tea with countries which have devaluated their currencies and have thus obtained some competitive advantage over us.

So far regarding our exports consisting of primary and semi-manufactured products. Regarding the diversification of our exports we must try to produce a larger number of exprotable articles. It will be a long time, however, before we are able to supply to the international market products of our large scale industries which in the main have yet to be established. But there is considerable scope for the expansion of the products of our handicrafts. The sports goods industry can supply a variety of articles and so can many other cottage industries an account of which we have already given in an

earlier chapter. Our cottage industries, however, need rationalisation in the matter of technique of production, arrangements for the supply of raw materials, training of workers and facilities for finance and marketing. The application of the co-operative principle to our cottage industry has not so far yielded spectacular results. It would be worth while inquiring into the causes of this failure. The recently appointed Committee on co-operation, we are sure, will go into this matter.

A few months ago the Government of Pakistan established a Foreign Trade Development Council which consists of representatives of the commercial cummunity. Its function is to advise on the ways and means of promoting Pakistan's trade with a view to maintaining her balance of payments and creating an export surplus to be used for financing of imports of capital goods and other essential industrial raw materials. In a meeting held in September 1950 the Council recommended the establishment of an Export Promotion Committee which the Govetnment has recently set up.

The Committee has been asked to suggest lines of policy for expansion of trade including the export and inter-provincial trade. The Committee has also to suggest goods and commodities which are susceptible to significant expansion in their trade. The Committee will fix its main attention on commodities like hides and skins, cotton seed, betel nut, tea, sports goods, surgical instruments, fruits, and handicrafts of various kinds. This list does not include our two main exports, raw cotton and raw jute, which are already receiving adequate attention from the Cotton Board and Central Cotton Committee, and the Jute Board and the Jute Committee respectively. Another function of the Committee will be to examine impediments in the way of increasing exports, particularly those relating to price, quality, quantity, standards, and transport and freight and to suggest remedial measures.

The Committee has alse been asked to make recommendations regarding potential markets, publicity and expansions and measures of assistance to traders etc. The Committee was expected to make its report to the Ministry of Commence by the 14th of April 1951.

The appointment of such a Committee is a step in the right direction. It is expected that the Committee will be able to pool the existing information on these matters and will be in a position to prepare ground for the formation of a sound commercial policy on the part of the Government.

11. Conclusion. From this discussion the conclusions that follow are (*i*) Pakistan must depend for the import of consumers goods on her export surplus and not her sterling balances which latter should be used entirely for financing our economic development. (*ii*) So far the Government has been rather too liberal in her import policy and the effect of this policy on the prices has not been significant enough to justify frittering away of our hard earned sterling reserves. (*iii*) The present boom in our export trade has been due to international factors on which we cannot depend from the long period point of view. What is needed is a carefully framed commercial policy which should aim at (*a*) Stimulation and diversification of our exports both as regards countries and commodities. (*b*) Greater discrimination in our imports. Only very essential consumers goods should be allowed to come in and these only to the extent justified by the export surplus earned by normal trade channels.

APPENDIX I TO CHAPTER XIX

A. The International Monetary Fund. The World War II was yet in progress when it was realised that the proper utilization of the world's resources and the balanced economic development of the various countries was the basic need if future wars had to be prevented. As a result of a gathering of 44 nations at Bretton-woods in the Summer of 1944, two institutions were brought into being, one to encourage multilateral international trade through helping countries in temporary difficulties regarding their balance of payments and the other to finance the economic reconstruction and development of War ravaged and underdeveloped countries and thus to expand trade and raise living standards all over the world. The former was the objective of the International Monetary Fund and the latter of the International Bank for Reconstruction and Development.

The purposes of the Fund and the Bank have been clearly defined in the Articles of the Agreement and cover a wide field.

The Fund has the following objectives before it in the discharge of its various functions :—

(a) To promote international monetary co-operation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

(b) To facilitate the expansion and balanced growth of international trade and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all the members as primary objectives of economic policy.

(c) To promote exchange stability, to maintain orderly exchange arrangements among members and to avoid competitive exchange depreciation.

(d) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

(c) To give confidence to members by making the fund's resources available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

The Fund aims at maintaining exchange stability through fixing the par values of the currencies of the members who undertake to adhere to their par values and not to change them without the consent of the Fund. The Fund supplies a member with the currency of another member in order to enabie it to get over any maladjustments in its balance of payments. The use of the Funds resources, however, are governed by certain conditions. According to the Articles of the Agreement a member is only entitled to buy the currency of another member in exchange of its own if it is needed to restore equilibrium in its balance of payments.

The assistance of the Fund, however, is only given to get over short term difficulties regarding the balance of payments of members. The object is not merely to supply currency of certain members to other members in balance of payments difficulties. The primary object of the Fund is to promote international monetary co-operation by facilitating an expanding and balanced system of world trade. All actions of the Funds are subordinated to the achievement of this end.

B. The Bank of International Reconstruction and Development. The Bank is a sister institution to the Fund. In fact the membership of the Funds is a condition precedent for the membership of the Bank.

The purposes of the Bank according to the Articles of Agreement are as under :—

(*a*) To assist in the reconstruction and development of territorries of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peace time needs and the encouragement of the development of productive facilities and resources in the less developed countries.

(*b*) To promote private foreign investments by means of guarantees or participation in loans and other investments made by private investors ; and when private capital is not available on reasonable terms to supplement private investment by providing on suitable conditions finance for productive purposes out of its own capital, funds raised by it and its other resources.

(c) To promote the long range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encanraging international investments for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labour in their territories.

(d) To arrange the loans made or guaranteed by it in relation to international loans through other channels so that more useful and urgent projects large and small alike will be dealt with first.

(e) To conduct its operations with due regard to the effects of international investment on business conditions in the territories of members and in the immediate postwar years to assist in bringing about a smooth transition from a wartime to a peacetime economy.

Pakistan's membership of the Fund and of the Bank was accepted in July, 1950 and Pakistan signed the Articles of Agreement of the Fund and the Bank on the 11th of that month. Pakistan's quota in the Fund and the Bank has been fixed at a hundred million dollars each. Pakistan holds the fourteenth largest quota in these institutions as shown below :—

Quotas in million dollars.

Countries	I.M.F.	I. B.
1. U. S. A.	2,750	3,175
2. U. K.	1,300	1,300
3. China	500	600
4. France	525	525
5 India	400	400
6. Canada	300	325
7. Belgium	225	275
8. Netherland	225	225
9. Australia	200	180
10. Italy	180	125
11. Brazil	150	125
12. Czechoslovakia	125	105
13. South Africa	100	100
14. Pakistan	100	100

These quotas are not final. Members can apply for more quotas if they so wish. In fact the existing arrangements have to be reviewed every five years and if necessary the Fund can propose an adjustment of the quotas of the members. Quotas can be adjusted at the request of the member concerned.

The quota has to be paid as follows :—

25% of the total in gold ; 10% of its net official holdings in gold and dollars, the balance in the currency of the member concerned.

(e) To give confidence to members by making the fund's resources available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity,

The Fund aims at maintaining exchange stability through fixing the par values of the currencies of the members who undertake to adhere to their par values and not to change them without the consent of the Fund. The Fund supplies a member with the currency of another member in order to enabie it to get over any maladjustments in its balance of payments. The use of the Funds resources, however, are governed by certain conditions. According to the Articles of the Agreement a member is only entitled to buy the currency of another member in exchange of its own if it is needed to restore equilibrium in its balance of payments.

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(b) To promote private foreign investments by means of guarantees or participation in loans and other investments made by private investors ; and when private capital is not available on reasonable terms to supplement private investment by providing on suitable conditions finance for productive purposes out of its own capital, funds raised by it and its other resources.

(c) To promote the long range balanced growth of international trade and the maintenanee of equilibrium in balances of payments by encanraging international investments for the development of the productive resources of members, theteby assisting in raising productivity, the standard of living and conditions of labour in their territories

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(e) To eonduct its operations with due regard to the effects of international investment on business conditions in the territories of members and in the immediate postwar years to assist in bringing about a smooth transition from a wartime to a peacetime economy.

Pakistan's membetship of the Fund and of the Bank was accepted in July, 1950 and Pakistan signed the Articles of Agreement of the Fund and the Bank on the 11th of that month. Pakistan's quota in the Fund and the Bank has been fixed at a hundred million dollars each. Pakistan holds the fourteenth largest quota in these institutions as shown below .—

Quotas in million dollars.

Countries	I M.F.	I B.
1. U. S. A.	2,750	3,175
2. U. K	1,300	1,300
3. China	500	600
4. France	525	525
5 India	400	400
6. Canada	300	325
7. Belgium	225	275
8 Netherland	225	225
9 Australia	200	180
10 Italy	180	125
11. Brazil	150	125
12. Czechoslovakia	125	105
13. South Africa	100	100
14. Pakistan	100	100

These quotas are not final. Members can apply for more quotas if they so wish. In fact the existing arrangements have to be reviewed every five years and if necessary the Fund can propose an adjustment of the quotas of the members. Quotas can be adjusted at the request of the member concerned.

The quota has to be paid as follows :—

25% of the total in gold ; 10% of its net official holdings in gold and dollars, the balance in the currency of the member concerned.

APPENDIX II TO CHAPTER XIX

TRENDS[1] IN SEA-BORNE TRADE GOVT.[2] ACCOUNT AND PRIVATE ACCOUNT.

	1947-48 (15th August 1947 to 31st March, 48.			1948-49			1949-50,			1950-51.		
	Imports Rs. crores.	Export. s. crores.	Balance Rs. crores.	Import Rs. crores.	Export Rs. crores.	Balance Rs crores.	Imports Rs. crores.	Export Rs. crores.	Balance Rs. crores.	Import Rs. crorers,	Export Rs. crores.	Ba lance Rs. crores
April ...	...	...	...	6.34	14.33	+7.99	12.83	11.80	—1.03	8.21	10.66	+2.45
May ...	...	...	...	5.23	8.31	+3.08	13.79	10.54	—3,25	8.96	13 42	+4.46
June ...	...	...	...	5.86	7.08	+1.22	10.60	7.06	—3.54	6 61	7.77	+1.16
July ...	...	...	...	9.44	5.13	—4.31	11.91	4.33	—7.58	7.98	10 47	+2 49
August ...	1 32	1.60	+ .28	11.42	6.94	—4.48	13.77	5.14	—8.63	12.16	12.61	+ .45
Sept. ...	1.99	4.78	+2.79	11.07	6.16	—4.91	11.50	5.92	—5.58	13.38	13.26	— .12
Oct. ...	1.94	2.04	+ .10	9.33	2.73	—6.58	7.40	4.80	—2.60	11.23	10.71	— .52
Nov. ...	1.82	4.77	+2.95	9.12	5.31	—3.31	7.91	4.33	—3.58	11.52	14.57	+3.05
Dec.	1.75	8 57	+6.82	11.00	9.35	—1.65	6 43	9 73	+3.30	14.70	11.79	—2 91
Jan. ...	1.59	6.62	+5.03	13.65	10.79	—2.86	7 33	8.99	+1.66			
Feb. ...	2.16	9.01	+6.85	11.97	16.09	+4.12	6.06	9.62	+3 56			
March ...	2,41	11.16	+8.75	13.81	10.04	—3.77	7.86	8 73	+ .87			
Total ...	15:00	48.54	+33.54	118.25	102.32	—15.93	117.42	92.00	—25.42			

(1) Source : Central statistical office. Pakistan Government.
(2) Defence items not included.

CHAPTER XX

TRANSPORT

1. Introduction : It has been well said that 'Transport is civilisation'. Easy means of transport and commuuication are of the utmost importance for the economic development, social progress and political stability of a country From the economic point of view transport expands the area of division of labour, facilitates the movement of raw materials from their place of production to the place of their utilisation; in return it helps the movement of goods from producing centres to consuming centres All this results in more and better production, in levelling up the deficit areas and in the economic absorption of surpluses of the surplus areas. Economic history of all advanced countries shows that their economic development was accelerated, if not actually initiated, by increased facilities of transport. The Indian continent consisted of self-sufficient village units before the coming of Railways and Roads, which broke down this isolated and hence backward economy

Socially speaking, improved transport facilities encourage the mixing and mingling of the people, mind has impact upon mind resulting in stimulation of mental processes, relaxing of hide-bound traditions and conservative habits and encouraging of a fresher and progressive outlook on men and affairs They promote the spread of education, make possible medical relief wherever necessary and enrich in a thousand other ways the material, intellectual and moral pattern of social life. Politically, transport facilities allow quick movements of armies and equipment to strategic points, thus making the defence of the country more economical and more effective. Communications and transport also help in the maintenance of law and order within the country.

In the future plans for the development of Pakistan, therefore, provision of easy and cheap means of transport and communications should be given the highest priority. At the moment our position in this respect is not what it ought to be. With an area about one quarter of and a population about one fifth of the total Indo-Pak sub-continent, Pakistan has inherited about ⅑th of Railways and metalled roads.

We shall now proceed to consider the main forms of transport *i.e.*, Roads, Railways, Water Ways and Aviation.

2. **Railways-Historical Retrospect.** Proposals for railway construction in India were mooted in England as early as 1844. The E.I. Company gave contracts to British companies under a system of guaranteed returns under which two small railway lines were made near Calcutta and Bombay. In 1853 Lord Dalhousie emphasized the importance of railway construction in India in his famous Minute. He recommended a system of trunk lines connecting the interior of each Presidency with its principal port and connecting the Presidencies with one another. He favoured construction through private companies under the supervision and control of the Government. Consequently between 1854 and 1860 contracts were entered into with eight companies. The Mutiny further stimulated the construction of railways to facilitate the movements of troops Upto 1869 Railways were constructed under what is called the Old Guarantee System. Under this system the companies were given land free of cost and were guaranteed rates of intetest on their capital ranging from 4 to 5 per cent. payable at 22d per rupee. Out of the profits, if any, the companies were required to pay the Government any sum by which they might have had previously to make good the guaranteed interest. The remainder was to belong to the share-holders. The Government reserved certain powers of supervision and control. This system, however, proved a drain on the resources of the Government. Guaranteed interest led to extravagance by the companies and the Railways incurred deficits amounting to Rs. 1,66,50,000 by 1869, when this system was given up.

From 1869 to 1879 was a period of State construction and management. A new policy was followed because, the Old Guarantee System proved unsatisfactory. Capital expenditure on railways was incurred by the Government. Upto 2 million annually was to be borrowed for this purpose. The main difficulty, however, was the inadequacy of funds at the disposal of the Government. During this period the Sind and Punjab lines (later N.W.R.) were converted from metre into broad gauge for strategic reasons. The depreciating rupee, the famines between 1874 and 1879, and the frontier wars with Afghanistan, further accentuated financial difficulties. On the other hand, the need for rapid expansion of railways was stressed by the Famine Commission of 1880. The Government thus had again to resort to construction through private companies. This ushered in the period of the New Guarantee System.

From 1879 to 1900 railways were constructed under a revised system of guarantees. Under this system the lines

constructed were declared the property of the Secretary of State for India who had the right to terminate the contracts after 25 years or subsequent intervals of ten years, on repaying at par the capital provided by the companies. The guaranteed interest rate was lowered to 3½ per cent. and Government shared about three fifths of the profits In most cases the government purchased after 25 years the railways constructed under this system. In some cases the management was assumed by the State (e g , Sind-Punjab Railway later N.W.R.) and other companies were allowed to manage under revised contracts (e.g , East India and G.I.P. Railway). The government, however, obtained more favourable financial terms under revised contracts.

Between 1900 and 1914 rapid expansion of railway construction took place. In 1905 the Railway branch of the Public Works Department was abolished and a new Railway Department was created under the Ministry of Industry and Commerce with a Railway Board at its head. Following the recommendations of the Mackay Committee capital expenditure on railways was increased considerably. From 1900 onwards the railways began to earn profits. So far the State had suffered a loss of Rs. 58 crores These losses had resulted from the construction of ... lines like the N.W.R., and other lines for ... management of companies and high rat ... to them. The frontier lines however, began to pay with the development of irrigation works in Sind and the Punjab. Moreover, the revised guaranteed rates were lower. By 1924 the total profits from the railways had reached as high as Rs. 103 crores.

In the mean time the railways had passed through the strain of the World War I. The system had been overworked due to transport of troops and war materials. The capital expenditure had been halted due to financial difficulties of the Government and the non-availability of requisite capital equipment. This resulted in considerable deterioration of the railways.

The contract with the East India Railway was due to expire in December, 1919 and was extended up to 1924. A committee was appointed in 1920 under the chairmanship of Sir William Acworth to investigate the question of State management versus private management. The majority of the Committee favoured State management on the ground that it was likely to provide the people with cheaper rates, impartial treatment and better facilities. In fact when the Committee reported most of the railways had already passed under State ownerships

and State management. The Committee recommended that this policy should continue. In 1924-25 the E.I R. was also taken under state management. The Southern Punjab Railway was purchased by the State in 1930 and was to be worked by the N.W.R. which was already State owned and State managed. The B.B. and C.I. and Assam Bengal Railway were taken over from 1st Jan., 1942. Later the Bengal and North Western and Rohil Khand and Kumaon Railway were also taken over under the name of Oudh and Tirhut Railway.

The Acworth Committee also recommended the separation of Railway finances from the General Budget with idea of running the railways on commerical lines and to save them from the effects of the varying fortunes of the General Budget. This principle was accepted and the first separated budget was presented to the Assembly in March, 1925. Under this scheme the railways had to make certain contributions to the General Budget *i.e.* one per cent. on the capital at charge of commercial lines at the end of the penultimate year plus one fifth of the surplus profits in that year. Interest on capital at charge of strategic lines and loss in working was to be deducted. Further, if after paying these contributions the amount available for transfers to the Railway Reserve should exceed Rs. 3 crores one third of the excess was to to be paid to the general revenues. The railway Reserve was to be used to secure payments of the annual contributions, to provide for arrears of depreciation and for writing down capital. The idea was to ensure regular contributions for the relief of the tax payers and also to provide for the needs of the railways during less prosperous years.

During 1930 to 1936 due to Depression there was serious deterioration in railway finance. In October, 1936, an Enquiry Committee the Wedgewood Committee was instituted to go into the question of railway administration and finance with a view to explore the possibilities of effecting economies and improving efficiency. The Committee recommended the creation of an adequate depreciation fund and a general reserve fund for the payment of interest charges and amortisation of capital. It further suggested that the relations between the railways and the public should be improved through the appointment of Press liason officers and a Railway Information Officer. These recommendations were accepted by the Government.

In the meantime, throughout the history of railways in India, a controversy had raged around the rates policy of the railways. It was alleged that railways fixed rates entirely out of consideration of profit and also to encourage foreign industries

at the cost of Indian enterprise. Such allegations were made in the legislature, before the Industrial and Fiscal Commissions and the Acworth Committee. It was said that the rates were fixed in such a way as to encourage traffic to and from the ports rather than movements of goods in the interior. This had resulted in the export of raw materials, decay of handicrafts through foreign competition and concentration of industries in port towns. The "block rates" system, under which rates were manipulated through putting particular goods in particular classes, was also criticised. The Fiscal Commission agreed that this was done. The Industrial Commission recommended equal rates for equal distances for internal traffic and traffic with the ports. The Fiscal Commission endorsed these recommendations, and also recommended special concession rates for products of new Industries. The Agricultural Commission recommended closer co-ordination between the Agricultural Departments and railways and favoured concession rates for the transport of fertilisers, fuel, fodder, milch cattle, etc. They also recommended re-examination of rates on raw materials and agricultural machinery. Most of these recommendations were accepted by the Government in 1930. At the recommendation of the Acworth Committee a Rates Advisory Committee was appointed in 1926. Railway Advisory Committees were also appointed in all railways to associate the public with the management of railways

The Acworth Committee had also recommend the appointment of a Railway Rates Tribunal. This was done by the Indian Union after partition in 1949.

In the meantime the railways had passed through the Second World War. The railways again had to work under pressure and repairs and replacements had to be neglected. This was so specially after 1941 when Japan entered the War and coastal traffic fell on the railways especially the transport of coal. Other requirements of defence also had to be met. The number of wagons left for civilian needs was inadequate. Sir Edward Benthal in his budget for 1943-44 remarked, "Since last year not only has the tide of battle lapped our shores, and thrown upon the railways much traffic which would normally have been sea borne, but the railways have had to face an organized, malicious and determined internal attack designed primarily to put them out of action and on top of all this a series of almost unprecedented floods and cyclones." In July, 1942 the War, Transport Board was created. The railway transport was gradually rationalised. Non-essential traffic was discontinued, special concessions were cancelled, passenger trains were cut

Even then as Sir Edward pointed out the railways carried 20 million more passengers a month or 6,50;000 a day. (1) The increase of traffic was not uniform over the whole of India. It was 100% in the Punjab while in Howrah it was only 40%. No wonder the railways were in a state of deterioration after the War. At the time of partition they had not yet been properly rehabilitated.

3 **Evaluation of Railways.**—The growth of railways in the Indo-Pak sub-continent has not been in accordance with the economic needs of this area. They were constructed primarily for military and strategic reasons and for encouraging export of local raw material and import of foreign (particularly British) manufactured goods. The plan of their development aimed at providing quick facilities for movement of troops and war equipment to frontiers and to open up the country to foreign trade. Many of the important towns of old (*e.g.* Dacca, Murshidabad, Madura) which were centres of internal trade were left away from the new channels of trade and commerce and decayed in due course. Points within the interior of the country were not adequately connectd for promotion of internal movements of goods. Their construction was handed over to foreign companies which were assured of fixed minimum returns from their invested capital in railways. This method apart from encouraging extravagance and involving the Government into heavy financial losses, gave a free hand in the planning of railways to foreigners whose interest did not always coincide with those of the nationals of the country. The discriminatory rates operated against the local interestes exposing the products of the domestic handcrafts to the competition of machine made cheap foreign manufactures.

In spite of bad planning and injurious rates policy, however, railways were bound to have favourable repercussions as well on the economic and social life of the country. They helped in the amelioration of the people in times of famines; they led to more equal distribution of food products over time and over space; they encouraged the growing of cash crops: they brought variety to the goods consumed by the people. By creating opportunities of greater division of labour as between various localities they promoted production and to that extent led to higher living standards. On the social side they helped in the spread of educational and health facilities; they promoted social intercourse among the people and helped in the spread of pro-

(1) E. Benthal: Indian Review Jan, 1943, "Transport in War Time".

gressive ideas ; they acted as a force against conservatism, hide bound tradition and, to some extent, lowered the caste barriers. Finally, they were a great factor in the establishment of law and order and creation of stable political conditions.

All the benefits of railways, however, could have been achieved at a much lower cost if they were planned and constructed with an eye on the interests of the people of the country, rather than with a view to exploiting the resources of the land for the benefit of foreign interests.

Quantitatively speaking the sub-continent was still inadequately provided with railway facilities. The total mileage at the time of partition (including state railways) was about 40,000 miles of track. Thus for every 100 square miles of territory India had only 2.2 miles of railway track as against Germany and U. K. which had 20 miles each. Belgium had 40 miles for every one hundred miles of territory, Russia 11.5 miles, U.S.A. 6.6 miles. In relation to population India had 11 miles of railways, Canada, 465 miles, U.S.A. 224 miles, South Africa 164 miles and U.K. 46 miles for every lakh of inhabitants. Pakistan's share was even less in proportion to area and population as we shall see below.

4. **Effect of Partition on Railways.** The partition resulted in seven out of nine railway system going intact to the Indian Union. The remaining two, that is, the Bengal Assam Railway and the North Western Railway were divided between the two countries on the basis of geographical location. The shares of each Dominion were as under :—

Route Mileage[1] of Railways.

	All India total miles	Pakistan's share miles	%Share of Pakistan total
A-Divided Lines.			
(1) Bengal Assam (total)	3,555	1,613	45.4
(a) Broad gauge	894	542	60·6
(b) Metre gauge.	2.624	1,051	40.0
(c) Narrow Gauge.	37	20	54 0
(2) N.W.R. (total)	6,903	5,026	73,0
(a) Broad Gauge	6,306	4,556	72.2
(b) Narrow Gauge.	598	470	80.0
(3) Jodhpur Railway (Metre Gauge)	1,127	319	28.3
Total Divided Lines	11,585	6,958	60.0
B. Not Divided Lines.	29,556	nil,	nil.
All India total	41,141	6,958	16.8

(1) Figures taken from C. N. Vakil : Economic Consequences of Partition, P. 432.

Thus Pakistan got only about 17 percent of the total railway route mileage and over 83 went to India. The percentage of various kinds of railway track in the total route milage of India and Pakistan was as under.

	All India	Pakistan	Percentage share of Pakistan	%of total in Pakistan
Broad Gauge	20,737	5,098	24.6	73.3
Metre Gauge	16,351	1,370	8.3	20.0
Narrow Gauge	4,053	490	12.1	6.7
Total	41,141	6,958	16.8	100.0

From the above table it would appear that Pakistan got its due share as far as the broad gauge lines were concerned. With a area percentage of 23 and population percentage of 19 Pakistan got about 25% of the total broad gauge route mileage of undivided India. But it should be noted that about 40% of this mileage route are strategic lines which do not pay their way[1]. Some portions of the metres and narrow gauge are also strategic. The narrow and metre gauge lines have much smaller carrying capacity and they involve further difficulties regarding through traffic. Moreover, the Assam Bengal railway even before partition was running at a loss. On the whole therefore Pakistan did not get a square deal in the matter of division of railways as she did not do in several other matters. She suffered both qualitatively and quantitatively.

In the division of moveable assets like rolling stock each Dominion received on Mileage-Cum traffic bases. The total divisible rolling stock consisted of 8,587 locomotives 24,446 coach vehicles and 251,000 goods wagons. Of these Pakistan was allotted 1,339 (15.6%) locomotives, 4,280 (15.9%) coach vehicles and 40,221 (19.9%) goods wagons. Even here Pakistan's share was less than what it should have been on the basis of population or area.

But even this rolling stock was with-held long. " From available information it seems." Says an Indian authority "that all the wagons belonging to Bengal Assam Railway and the North Western Railway were not delivered for a considerable time. The East Indian Railway had to give on loan over 1600 wagons to the East Bengal Railway to expedite the transport of East Bengal raw jute tea and other goods from Assam to East Bengal to Calcutta.[2]

(1) The loss per annum on the strategic lines was estimated at Rs. 1.25 crores by the Pakistan Finance Minister. Budget Speech. 1949-50. p.15.

(2) C.N. Vakil : Economic Consequences of Divided India. p 404.

As late as March 1950 Pakistan's Finance Minister complained that India had not yet returned 65 passenger coaches due to N.W.R.[1]

The quality of the rolling stock that wss received was much below average even compared to the deteriorated rolling stock of post war India. The lines that happened to be divided were the ones which had suffered most on account of the heavy war traffic. The rolling stock was in such a deteriorated condition that much of it could not be kept under operations for long. It is presumably because of this that we find the rolling actually in operation in 1949 to be much less than Pakistan's share from undivided India:—

	Locomotives	Carriages	Wagons
Pakistan	1,339	4,280	40,221
Actual in 1949	1,263	2,703	35,925
Deficiency	76	1,577	4,296

It is not clear how much of this deficiency is due to scrapping of over-aged stock and how much to our full quota not being received. But on the whole it appears that Pakistan did not get her fair share of the rolling stock of railways.

The award of the Boundary Commission resulted in the Factory Station of Moghalpura coming to Pakistan and the Workshop of Kanchrapara in Bengal going to India. In India there are other factories at Dohad, Ajmer and some other places.

5. Post Partition Difficulties of Pakistan Railways. Pakistan Railways, over and above their inadequacy, were faced with serious difficulties during the period immediately after partition. In the first place, they had to arrange an Inter-Dominion transfer of about 1½ lakhs of Railway employees who had opted for Pakistan. Secondly, on account of the sudden movement of non-Muslim employees, specially in the upper ranks of the Railway service, the running of Railways, became a problem and the services had to be seriously curtailed. Added to this was the serious shortage of coal for which Pakistan depended on India. Ticketless travel was another problem which was cutting into the meagre finances of the country, and the last though not the least, was the stupendous refugee problem. Hundreds of thousands of refugees were to be transported most quickly from areas in India, where

(1) Budget Speech 1950-51. P. 14.

their lives were in constant danger and brought to camps, and from there to be spread over the various parts of Pakistan.

All this service was to be done free of charge. No wonder in this confusion ticketless travel spread like an epidemic disease, it being very difficult to distinguish who was and who was not a refugee, even though refugee trains were segregated.

All these problems were met with varying degrees of success by the Pakistan authorities. The problem of surplus staff created by more persons opting for Pakistan than could be absorbed in Pakistan Railways, was a big headache to the Government. At one time it was costing Rs. 17 lakhs per month. To retrench them would have been not only cruel from the humanitarian point of view, but it was unwise also politically speaking. Arrangements, therefore, were made to train these people for alternative employments in other categories where there were shortages; double shifts were introduced in workshops; private employers and Railway contractors were asked to absorb some of them. Regional Emyloyment Exchanges and Provincial Governments were requested to absorb as many of them as possible. By April, 1949 when retrenchment of permanent staff was stopped, their number on Pakistan Railways was 2,124. Railway Administration was asked to absorb them against normal wastage and in alternative employments by giving intensive training where necessary. By April, 1950, this surplus had been reduced to 1,550. Attempts are being made to absorb them in permanent posts. To meet the loss due to this vast expense of the surplus staff a vigorous economy drive was launched. The North-Western Railway Service Commission was abolished, some gazetted posts were retrenched others were kept unfilled, a committee was appointed to fix new cadres of gazetted posts. With these measures was brought about some sort of a stability in the Railway finances. Thus in the Revised Estimates for 1948-49 the Finance Minister was able to show a surplus of Rs. 79·5 lakhs.

As regards the problem of shortage of coal the number of train services was drastically cut down; train services in the N.W.R, at one time were a bare 12% of the pre-partition days. To economise coal the most important step taken was the conversion of locomotives from those using coal to those using oil. By March, 1949, 20% of the locomotives of the N.W.R. had been converted into oil burning ones. By March, 1950, 366 oil burning locomotives were in service. Another step taken in this connection was the import of coal from countries other

than India. By the middle of 1948, 26,950 tons had been imported from U.S. A and 17,544 tons from U.K. Arrangements were also made to import 15,000 tons per month of coal from U.K. to supplement the supply of 100,000 tons from India. Coal however continued to give trouble on account of uncertainties of supplies from India, the main source. In March, 1949 in his Budget speech the Finance Minister of Pakistan said, "The coal situation has been giving us considerable trouble during the current year and we had to import large quantities from overseas at very high prices."[1]

A year after the coal situation instead of improving had become worse. During the first 9 months of 1949-50 the coal imports from India were satisfactory though import via sea cost Pakistan an extra Rs. 1.29 crores upto December, 1949. Immediately after devaluation the price of coal was increased by India by Rs. 12 per ton. In December, 1949 India stopped all coal supplies to Pakistan without notice. But Pakistan was able to make satisfactory arrangements for getting supplies from other countries. The conversion of locomotives from coal to oil continues.

As regards the refugees the Railways worked to the maximum of their capacity and faced the situation bravely. By the autumn of 1948 they succeeded in evacuating all the refugee camps in the Punjab. The increase of ticketless travel was met by introducing flying squads of ticket checkers supervised by officers and by creation of barbed wire fences for the control of unauthorised persons at the Railway Stations. Special Magistrates were appointed to deal with the culprits summarily and penalties for ticketless travel were enhanced. As a result normal conditions were restored.

6. **Financial Position of Pakistan Railways.** We have already noted that from 1924 onwards in predivision India the Railway Budget was separated from the General Budget of the Central Government. After partition in Pakistan the Railway Budget was reabsorbed in the General Budget. The Finance Minister thought it an unnecessary refinement under the new circumstances to have either a separate Railway Reserve Fund or to maintain the distinction hitherto made between the strategic and commercial lines. The Minister, however, gave the assurance that this amalgamation would not mean any relaxation in the matter of running the Railways on a strictly commercial basis, in maintaining proper commercial accounts.

(1) Budget Speech 1949-50. P. 17.

The Depreciation Fund was to continue and provision was therefore made for it in the budget at the usual rates.

We have already noted the various factors which impinged upon the finances of the Railways following the Partition. The working of the first 7½ months from 15th August 1947 to 31st March 1948 brought about an estimated deficit of Rs. 150 lakhs, receipts amounting to Rs. 18,20 lakhs and expenditure including interest to Rs. 19,70 lakhs. Actually the the loss came to Rs. 1,87 lakhs for this period. Conditions however, soon began to improve. The progress of railway finance from April 1st 1948 to March 31st 1952 is given below :—

Year.		Total receipts Rs. lakhs.	[1] Total working expenses Rs. Lakhs.	+Surplus —deficit Rs. lakhs.
1948-49 B. E.	...	32,59.10	32,59.07	+ 03
1948-49 R. E.	...	33,37.88	32,58.38	+ 79.50
,, ,,	Accounts	——	——	+ 2,85
1949-50 B. E.	...	34,50.76	35,50.40	+1,00.36
1949-50 R. E.	...	36,36	33,36	+ 3,00
1950-51 B. E.	...	37,33	33,33	+ 4,00
1950-51 R. E.	...	38,31	35,73	+ 2,58
1951-52 B. E.	...	41,02	38,05	+ 2,97

The above table suggests a progressive improvement in the finances of Pakistan railways. We started with a heavy deficit of about Rs. 2 crores for the period of 7½ months ending with 31st March 1948. The reasons for this have already been noted. The year 1948-49 budgeted a nominal surplus, but even this was an achievement compared to the previous period. This surplus, however, actually became substantial when the Finance Minister revealed in his Budget speech for 1951-52 that the final accounts of the year 1948-49 showed a surplus of Rs. 2.85 crores[2]. This improvement was brought about by strict

(1) Working expenses include interest charges and contributions to Depreciation Fund.

(2) Budget Speech 1951-52.

economy in operational expenditure and increased receipts resulting from larger traffic, and the revision of rates and fares and stricter check on ticketless travel.

For the year 1949-50 a surplus of one crore was estimated in the Budget on the basis of existing items of expenditure. But since the Government had accepted the recommendations of the Pay Commission regarding the revision of grades of the employees, the surplus was expected to turn into a deficit of Rs. 82 lakhs. The actual cost of implementing the Pay Commission's recommendations, however, was much higher *i.e.* Rs. 5.58 crores. But part of this additional expense was off set by saving of Rs. 3.76 crores on account of abolishing the arrangement of providing cheap grain shops. This reduced the additional cost to Rs. 1.82 crores, one crore of which was met from the estimated surplus of the budget. The net result was an expected deficit of Rs. 82 lakhs for the year 1949-50. The Finance Minister promised to make every effort to reduce this deficit through economy in operational costs and through improving the collection of revenue receipts etc.

The Revised Estimates of the year showed further improvement to a remarkable degree. The deficit of Rs. 82 lakhs was turned into a surplus of Rs. 3 crores. This achievement was still more remarkable because of the high cost of the imported coal, the loss on the strategic railways and the expected deficit on the East Bengal Railway. The Finance Minister, however, was able to say in March 1950 "I am glad to record that contrary to previous estimates, the Eastern Bengal Railway also closed with a surplus[1]."

The propects for Railways were so good that the Finance Minister was able to show an anticipated surplus of Rs 4 crores in the Budget for 1950-51. In the traffic receipts of Rs. 37.33 crores however, was included a sum of over a crore of rupees representing accumulated balances (2) recoverable from India

(1) Budget Speech 1950 51 p. 12.
The E. B. R. had shown loss of Rs. 1.45 crores in 1947-48, Rs. 1.39 crores in 1948-49 and was expected to show a loss of Rs. 48.3 lakhs in 1949-50 instead which surplus was anticipated in the R. Estimates.

2. This income was derived from what was called the "paid to pay" system of booking Under this system with effect from 6th November 1949 the Pakistan Railways realised the freigt charge from Indian traffic upto the Pakistan border while booking traffic to Indian Railways and left it to the destination railway of the Indian Republic to realise the freight due to the Indian Railways. After the stoppage of coal supply to Pakistan in December 1949 India diverted her cross traffic to the new Assam link in preference to giving Pakistan deposit for carrying their traffic.

on account of cross and through traffic. Since this money was not received the Revised Estimates for the year 1950-51 reduced the surplus to Rs. 2.58 crores.

For the year 1951-52 the Finance Minister has budgeted the total revenue receipts from the Railways at Rs. 41.02 crores and the revenue expenditure at Rs. 38.05 crores, the expected surplus being put at Rs. 2.97 crores.

The improvement in the financial position of our railways is too obvious to need any comment. It is clear from the table given above that between 1948-49 and 1951-52 revenue receipts increased by 26% and revenue expenditure (including interest charges) by 17%. The total surplus earned during the whole period (including B. E. for 1951-52) was Rs. 11.40 crores. After allowing for the deficit of Rs. 2 crores for the 7½ post partition months the net profits of the railways have been about Rs. 9½ crores in four years. This is not a bad performance considering the various limitations of the railway systems inherited by Pakistan. In the meantime new constructional work under the capital budget has continued.

The capital Budget provides for Expenditure not to be met from Revenues. The table below gives the provisions made in this connection since the Partition.

Year.	Works Expenditure Rs. crores.	Deduct Expenditure chargeable to Depreciation Fund. Rs. crores.	Total for new works Rs. crores.
1947-48 (B.E.)	1.53	.80	.73
1948-49 (B.E.)	5.50	1.50	4.00
1948-49 (R.E.)	4.19	.92	3.27
1949-50 (B.E.)	5.13	3.44	1.69
1949-50 (R.E.)	4.25	1.86	2.39
1950-51 (B.E)	12.00	5.00	7.00
1950-51 (R.E)	10.07	4.77	5.30
1951-52 (B.E)	15.00	8.33	6.67

The Provisions for capital expenditure given in the above table are of two kinds. Expenditure for replacement of deteriorated rolling stock and tracks etc. and expenditure on new constructions: The former comes from the Depreciation Fund kept for this purpose to which regular amounts are credited every year at the rate of a little less than Rs 2 crores.

Additional capital provision is made for he balance of the works expenditure which relates to new constructions and development. The provision made for both these purposes for the 7½ months ending 31st March 1948 was on quite a modest scale due to post-partition financial difficulties. The provision of about Rs. 1½ crores mainly represented expenditure on works in progress and minimum requirements of repairs etc. A substantial amount of Rs. 5.50 crores was budgeted for the year 1948-49. This was mainly to cover expenditure on works necessitated by the partition in addition to certain development works like expansion of the harbour facilities at Chittagong. Rs. 2 crores were spent on the purchase of Mymensing Bhirat Bazar and Khulna Bagerhat sections of the E. B. R. Provision was also made for purchasing rolling stock for the Sind Section of the Jodhpur Railway which was taken over by of the N. W. R. during the year.

Due to non-availability of materials which were in short supply the whole of the works programme could not be carried out. The provision therefore was reduced to Rs. 4.19 crores in the Revised Estimates for the year.

Certain preliminary work, however, was done in connection with certain lines. This consisted of completion of the survey of a suburban Railway to Karachi by N. W. R, survey of Jassore Darsana and Dacca Aricha Sections of E.B.R. were sanctioned. Work at the Doubling of track in the Akhaura Bairab Bazar Section of E. B. R. undertaken earlier made progress. Only works of inescapable nature, however, were permitted.

By 1949-50, however, it was realised that certain replacements were over due and the Budget made provision for replacement of existing worn out coaches and locomotives with modern rolling stock. Provision of Rs 50 lakhs was made for quarters for staff in Eastern Pakistan. For the port of Chittagong a provision of Rs 11 lakhs was made in the Budget for 1948-49, and another Rs. 11 lakhs in the Budget for 1949-50. In the Revised Estimates, however, this was increased to Rs. 66 lakhs.

In the Budget speech for 1950-51 the Finance Minister further stressed the necessity of renewals of existing assets. "A stage has now been reached" he said, "when the long over due replacements and renewals of existing assets cannot be much longer postponed. Provision is, therefore made for more substantial expenditure." He therefore provided for a large sum of Rs. 12 crores for works programme during the year 1950-51; Rs. 7 crores for new works and Rs. 5 crores for replacements etc. from the Depreciation Fund. In tbe Estimates for the year

the gross expenditure was shown as Rs. 10.07 crores, the reduction being due to difficulties of obtaining supplies.

The programme for 1951-52 provides for a gross expenditure of Rs. 15 crores of which Rs 6.67 crores will be on capital account and the balance from the Depreciation Fund. To enable the Railways to undertake their heavy programme of replacements and renewals, a special contribution of Rs. 1.34 crores to the Railway Depreciation Fund has been made in the estimates for 1951-52.(1)

As regards actual constructions the Jessor-Darsana Railway started in 1949 has been completed. The Shaista Ganj-Habib Ganj and Amnura-Chapai-Nawab Ganj Sections of the E.B.R. dismantled during the war are being restored. Provision has been made for starting the construction of the Sylhet-Chattak Railway during 1951-52. Surveys have been undertaken for new lines (eg. Mardan Charsada-Fangi).

As regards improved rolling stock, provision has been made for the purchase of diesal and oil burning locomotives, carriages and wagons to meet the increased traffic demands. Orders have been placed for the purchase of all steel light weight semi-tubular type of carriages and main line diesal electric locomotives for both the railway systems. In addition, oil burning locomotives are being ordered for the E.B.R. to meet the shortage of power.

In 1950 a flotilla consisting of 48 river crafts of various kinds (costing Rs. 82.15 lakhs) was purchased to supplement the railway transport capacity for the purpose mainly of transporting Jute from inland riverine points to Chittagong and for the carriage of any up country traffic offering at the ports.(2)

7—**Concluding Remarks on Railways**—It will be seen from the above account that the Pakistan Railways are forging ahead. They were delivered to Pakistan in a deteriorated and financially very weak condition. In three years through wise planning of their operations and resources they have made distinctive recovery and are looking forward to a fairly extensive programme of construction and development. Their budget from a deficit of about Rs. 2 crores in 1947-48 has shown a surplus of about Rs. 3 crores for 1951-52. Locomotives, carriages and wagons are being replaced as quickly as finance and supply situation would allow. New developmental programmes have been chalked out and some have already been completed.

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1. Budget Speech 1951-52. P. 12.
2. Ibid.

All this is for the good. We would suggest however, that the Pakistan Government should aim at converting all the metre gauge lines to broad gauge tracks except where geographical conditions dictate otherwise as in hilly portions. This is in the interest of efficiency, economy and convenience of traffic. There was some dispute over the purchase of rolling stock for the metre gauge section of the Jodhpur Hyderabad Railway from the Jodhpur State. It would have been better if Pakistan had not attempted to purchase this stock. These 319 miles should have been converted into a broad gauge system and the rolling stock already in possession of Pakistan, could have been transported to East Pakistan to be used on the metre gauge there. Later on as the metre gauge stock deteriorated it could have been replaced even in East Bengal by the broad gauge type of Railway.

Another suggestion that we would make relates to the improvement in the classification of passengers. At present there are four classes—First, Second, Intermediate and Third. The amenities provided for the First and the Second Class are more or less the same, the cost of the First Class is about double that of the Second Class. There is no justification for this distinction. At the moment usually First Class carriages go empty. Only such people travel in them who are paid either by the Railways themselves or some other department of the Government. This merely means that the extra earnings of this class come from the Public Exchequer itself, while the net loss is the cost of running these empty carriages. They have become all the more redundant since the introduction of the Air traffic, the expense of which is only slightly higher than the First Class fare.

At the other end are the Third Class carriages which are more fit to carry luggage and animals than human beings. Their amenities, if they have any, have been the subject of much criticism for years. The comforts of this class must be at least at the level of what is now called the Intermediate Class. In fact the Authorities should go a little further and provide electric fans to these compartments. We are glad to note that the finance Minister has provided Rs. 20 lakhs in the Budget for 1951-52 for providing greater amenities to third class passengers. This however, is not enough. More radical measures are necessary. We would suggest that instead of four there should be only two classes for passengers, one providing the comforts

and facilities of the present Second Class and the other of the present Intermediate Class. The former may be called the First Class and the latter the Second Class. The fare of the First Class should be roughly 2½ times that of the Second Class.

8—**Pre-Partition Road Development**—The condition of roads in India in the middle of the last century was deplorable. Some roads had been constructed by the Indian rulers specially the Moghals in Northern India but they were inadequate for the need of the country. Most of the so called roads were mere tracks cut by the village carts as they passed between villages. The tracks became full of mud during the rainy season and of dust during the dry months of May and June. The trunk roads constructed by the earlier rulers—the Moghals, were badly neglected in addition to being inadequate. Lord William Bentink's efforts led to the revival of the Grand Trunk Road linking Peshawer with Delhi and Calcutta. On the whole the East India Company paid very little attention to road construction especially for the needs of the civil population. Whatever was done was for strategic reasons, for the movement of troops to the frontiers. This is evident from the fact that until about the end of the regime of the E. I. Company the roads were under the charge of Provincial Military Boards and not of a Public Works Department.

Lord Dalhousie initiated the era of road construction in India in the same way as he did that of railway construction. He created a Public Work's Departments for this purpose both in the provinces and the centre. With the extension of railways the need for supplementing them and feeding them with produce gave further stimulous to road construction. Another factor that acted in the same direction was the creation of Local self Governing bodies as a result of the policies of Lord Mayo and Lord Ripon. The result was a considerable activity in road building during the latter half of the 19th century. The Grand Trunk Road had already been extended from Calcutta to Peshawar ; Roads were built connecting Calcutta with Madras, Madras with Bombay and Bombay with Delhi.

These four main roads had a mileage of 5,000 out of the British Indian total of 47,000 miles of roads in 1900. Apart from these main roads, other roads traversed all over the country. In addition there were thousands of miles of unmetalled or Kacha Roads spreading all over the sub-continent.

Road construction was considerably stimulated by the First World War.

But the development was far from being adequate in view of the vastness of the area of the country and needs of its teeming millions. The inadequacy of the roads was recognised by official and un-official writers. In 1917-18 the Administration Report for the year (India in 1917-18) wrote "Among the difficulties which hinder the progress of Indian Agriculture despite the efforts of the Agricultural and Co-operative Departments may be mentioned the lack of good roads. Some of the best agricultural districts in India are cut off from Trunk Roads and railways and are inaccessible for most of the raining season." The Report for 1919-20 added, "The same rock upon which the Moghal Empire finally split still remains a formidable obstacle to the progress of modern industry unceasing efforts and expenditure upon a scale hitherto impossible will be necessary if the Communications of India are to be adequate to the requirements of the country." But the slowness of the progress made in road development may be gauged from the fact that India increased her load mileage in 45 years (1900-1945) by as much as America did in 1½ years. And this comparison does not take into account the fact that 67% of the increase in India was in unmetalled roads and all the American roads are metalled.[1]

In 1927 the Central Assembly appointed the Indian Road Development Committee (Jayakar Committee) to make recommendations on (a) the desirability of developing the road system of India. (b) the means with which such development could most suitably be financed and (c) the co-ordination of road development and research and road construction by the formation of a Central Road Board with due regard to the distribution of Central and Provincial functions. The Committee *reported in 1928 and were of the opinion that the development* of the road system of India was desirable for the general welfare of the country as a whole and in particular (a) for the better marketing of agricultural produce; (b) for the social and political progress of the rural population which will be advanced by the increased use of motor transport; and (c) as a complement to railway development. Regarding the means of financing road development the Committee was of the view that some additional taxation should be imposed on motor transport for purposes of road development. Such taxation sh 'd include

(1) V.F. Noel Paton Commerce '

(a) a duty on motor spirit (b) vehicle taxation and (c) licence fees for vehicles plying for lines. They specifically recommended the raising of duty on motor spirits from 4 annas to 6 annas a gallon, the additional 2 annas to be spent entirely on road development.

These recommendations led to the establishment of the Road Development Fund in 1929. To which the additional patrol duty of 2 annas per gallon (two years later raised to 2½ annas) was credited. During the ten years that followed further taxes were realised from motor transport in the form of import duties on vehicles, tyres and petrol. But the expenditure on roads actually decreased in spite the greater funds available. These taxes were diverted mostly to other purposes. The Second World War, however, focussed attention on the development of roads and more money from the transport taxes was diverted to road construction and maintenance. Even then the total expenditure on road construction and development was about 50% of the total revenues realised by the Government from motor transport. Thus in 1945-46 the total revenues from motor transport taxation was Rs. 26.49 crores out of which only 13.37 crores were spent, Rs. 3.8 crores on road construction and Rs. 9.57 on maintenance.

In the meantime in December, 1943 a Road Conference of Provincial Chief Engineers was held at Nagpore to chalk out a plan for Road development in India. The Chief Engineers came to the conclusion that India (including Pakistan) must increase its road mileage by 400,000 miles over a period of 20 years. In addition the existing roads must be improved. The cost of this development was estimated to be Rs. 448 crores. Out of the 400,000 miles proposed 89,000 miles were to be in what are now Pakistan territories. The estimated expenditure on these roads was to be Rs. 75 crores out of the total of Rs. 448 crores(1).

The plan had not yet reached the stage of implementation when the partition took place.

After a century of road development the roads in the sub-continent of India were far from adequate at the time of the partition. The metalled road mileage which was 47,000 miles in 1900 had increased to 95,000 miles in 1945. In addition ther were 197,000 miles of unmetalled roads. But compared to the area and propulation their progress was very meagre indeed

(1) Economic Consequences of Divided India *op cit.* P. 415.

as the table below would indicate:—

Countries	Total Population millions	Area sq. miles 000	Road milage	Mileage per 100 sq. miles of territory	Mileage per 1,00,000 inhabitants.
U. S. A.	132	3,027	3,009,000	100	2270
U. K.	46	89	179,290	202	390
France	42	213	405,028	190	900
Indian Areas	319	1247	239,081	19	75
Pakistan Areas	71	365	55,913	15	79

The figures need no comment.

9. **Rail-Road Competition.**—Before we pass on to the consideration of post partition roads position in Pakistan, it is necessary to refer to one matter which became a problem during the decade before the World War II and may become a problem again when conditions of normal traffic are restored. This is the problem of competition between the two means of transport the roads and the railways. In the thirties of this century road competition at one time became a serious menance to the financial solvency of the railways in India. This was the time when owing to the general economic depression the railway revenues had already seriously suffered and the competition of the growing motor traffic on the roads was making matters still worse for the railways. This situation involved duplication of services and waste of national resources. It was still more deplorable because whereas the profits from the roads traffic went into the pockets of a few private indviduals the losses incurred on the railways were a burden on the general tax-payers.

Road Transport has certain advantages over railways some of which may be called unfair. The lorry gives door to door service and is not bound by the rigidities of the time table. Their rates are flexible and are not fixed on any scientific basis of accounting. The lorry owners do not have to maintain the roads or any expensive establishment or equipment

The roads are maintained by the general tax payer. The Railways on the other hand have to bear heavy overhead charges represented by their expenditure on Railway Stations, permanent ways highly paid staff, expensive locomotives and rolling stock. Another difficulty is that the lorry transport does not undertake all kinds of traffic in the same proportion. Bulky goods which cannot bear heavy transport charges are diverted to the railways while articles of small bulk and high value which can bear heavier rates are transported by road Moreover, longer journeys and transport of goods for distant places are left to the railways and the more frequent and proportionately more paying transport over smaller distances are appropriated by the road services. In addition to this the motor transport companies and individuals at the time we are speaking of were in cut throat competition among themselves. They cut their rates to the lowest and tried to make up the losses deteriorating the quality of their service e.g. employing cheap and inefficient drivers, saving on repairs and replacements of their stock etc. This led to the growing number of accidents on roads.

The railways tried to meet this competition in various ways. They ran railway Omnibus services, sentinel coaches and shutter trains; they issued cheap return tickets for certain occasions and over certain distances; they quoted special terms for marriage parties and ran special trains at concession rates. Greater publicity was given to railway services.

10. **Attempts at Co-ordination and Regulation.**—It was soon realised, however, that both the methods of transport had then place in the national economy. What was wanted was their co-ordination not encouragement of the one at the expense of the other. For certain purposes railways were better fitted, e.g. long distance traffic and conveyance of bulky goods. For others road traffic was more economical specially where door to door service was involved and distances were moderate. The two services could supplement each other and did not need to enter into serious competition. The Agricultural Commission as early as 1928 had limited at the respective spheres of the two forms of transport. "The road system" they wrote "links up the cultivators' holding with the local markets and the nearest railway station, while the railway provides the connecting links between the area of production and consumers at a distance and between the manufacturer in the town and the cultivator who purchases his ploughs, his fertilizers or his cloth. Without good roads and sufficient roads no railway can collect for transport enough produce to render its operations possible, while the

best of roads cannot place the producer of crops in touch with the consumer (1)".

In 1932-33 Mr. K. G. Mitchell, Road Engineer with the Government of India and Mr. L. H. Kirkness, Officer on Special Duty with the Railway Board made an enquiry into the problem of rail-road competition. This led to the convening of a Rail-Road conference in April, 1933 at Simla. The Conference adopted resolutions pertaining to the co-ordination between rail and road transport. Among the suggestion made by the conference were the removal of statutory embargo on certain railways operating road services, granting of monopolies for road transport, creation of machinery for co-ordination at the provincial and the central levels. These suggestions were implemented in due course. In 1933 (September) the Railway Act was amended empowering railways to run motor services and a Transport Advisory Council was formed at the Ministerial level to formulate policies for the co-ordination of rail and road development. In November, 1937 the Department of Communications was created and was put in charge of an Executive Councillor which took over Railways, Post and Telegraph, Civil Aviation, Broadcasting, Meteorology, Roads, Ports and Inland Navigation.

In 1937 another Committee—the Wedgewood Committee, (named after the name of its chairman) examined the question of co-ordination of rail and road services. The Committee criticised the existing policy of regulation of road transport by Provincial Governments as inadequate. They thought, it encouraged an unorganized and inefficient system of road transport. They also did not favour the policy of the Central Government to restrict road development through controlling the expenditure on roads from the Road Fund. Proper co-ordination was the only way out according to the Committee. Proper regulation of road transport was necessary not merely in the interest of railways but in the interest of proper development of road transport. The Committee advocated regulation of roads by Provincial Government in accordance with uniform principles enacted by the Central Government. The specific measures favoured by the committee were: issuing of licences is accordance with public need to avoid excessive provision and maldistribution of road transport facilities, system of route licensing, fixation of fare and time-tables, regional licensing for goods and vehicles, police control for enforcing provincial rules,

(1) Repot Royal Commission on Agriculture in India P. 312,

a uniform system of taxation of motor vehicle in all provinces. The Committee further recommended that railways should participate in road transport and they should have full powers to run road services, to invest money in or enter into working arrangements with road transport undertakings etc.

As a result of the recommendations of the wedgewood Committee and those of the Motor Vehicles Insurance Committee a Motor Vehicles Act was passed in 1939 and superceded an earlier Act of 1914. The Act had two kinds of provisions (a) for regulating transport and (b) for co-ordinating it. It provided for setting up of regional transport authorities for control of transport vehicles carrying passengers and goods. For co-ordination purposes it provided for Provincial Transport authority. All Motor Vehicles had to be covered by permits issued by regional transport authority of the area. The holder of such permits had to observe certain specified conditions e. g., proper maintenance of vehicles, observance of speed limit, avoidance of over-crowding, reasonable working hours for drivers etc. The provincial authorities could be established for co-ordination and settling differences between the regional authorities. In granting permit the authorities were to bear in mind certain general principles. The aim was to meet the demand of public necessity and convenience. Uneconomic competition was to be prevented. Though transport of perishable goods over shorter distances was not to be interfered with long distance traffic was to be left primarily to railways. The authorities could fix minimum and maximum rates. The control of road transport was vested with Provincial Governments.

An important feature of the Act was to provide for third party insurance. This provision came into effect from 1st July, 1943 and was welcome in view of the frequent motor accident that occurred on the road. The Act was rightly regarded as a 'high-way code' and ensured a high degree of safety and convenience to passenger.

11. **Effect of Partition on Roads.**—As a result of Partition the roads of various kinds were naturally divided between the two Dominions on the basis of physical location. The table given below indicates the respective share of the two countries with respect to the metalled and unmetalled roads. Pakistan's share is further divided accordidg to the administrative units.

Road Mileage in India and Pakistan

	Metalled miles	unmetalled miles	total miles	%metalled of total
Pakistan Units :—				
Baluchistan	645	3,274	3,919	16.4
N.W.F.P.	2,033	3,632	5,665	36.0
Sind	494	9,881	10,375	4.7
(Pak) W. Punjab	3,194	11,152	14,343	22.2
East Bengal	2,371	15,270	17,641	13.5
N.W.F.P. Tribal area	364	758	1,122	32.4
Pakistan states	N.A.	N.A.	2,848	...
Total Pakistan	9 098	43,967	55.913	16 2
Indian Republic	85,788	153,293	239,081	36.0
Grand total	94,886	197,260	294,994	32.2
% Share of Pakistan	9.6	22.3	19.0	

From the above table it is clear that Pakistan does not "compare favourably" as regards her share of road mileage as the writer in Professor Vakil's edited book would make us believe[1]. Though in total road mileage Pakistan's share is only slightly less than in proportion to population and sizeably less in proportion to area, her share in metalled roads is less than 10% of the total. Further a very high proportion of the metalled roads in Pakistan are strategic roads which have little utility from the economic point of view.

Roads may be further classified into (*i*) National High—ways. (*ii*) Provincial Highways (*iii*) District Roads and (*iv*) Village roads. The National Highways connect capitals of States and provinces, large towns and ports. Out of 16000 miles of such roads Pakistan got 4,000 miles which is quite a satisfactory percentage. But as already noted most of these roads are strategic and are of little use commercially. Moreover they usually run parallel to railway lines and thus create the problem of rail road competition. The provincial Highways are the main arteries of commerce with the provinces or States. They are connected with the National Highways. The Distric roads connect the producing centres in the districts with the Highways and the Railway Stations. The village roads are mostly Kacha tracks connecting villages among themselves. In addition there are the Municipal Roads which are under the jurisdiction of a Corporation, Municipality, or a notified area.

(1) Consequences of Divided India. P. 414.

12. Road Facilities in Individual Provinces. The position of the various Provinces of Pakistan regarding roads is indicated by the following table :—

Province	Area sq. miles 1000	Population millions	Roads miles	Road mileage per 100 sq. miles of area	Road mileage per 1,00,000 inhabitants
Baluchistan	54	.5	3,919	7.2	784
N.W.F.P.	14	3.0	5,665	40.5	189
Sind	48	4.5	10,375	21.7	230
Punjab	62	15.8	14,343	23.1	91
East Bengal	54	41.8	17,641	32.6	42
Total	232	65.6	51,943	22.4	79

It will be seen that N.W.F.P. is well supplied with roads both in proportion to area and population. This province also has the highest proportion of metalled roads. But this being a frontier province these roads are mostly of strategic nature and are not of great significance from the economic point of view. Baluchistan has wide uninhabited areas. The population is only half a million, hence the highest proportion of roads in proportion to population and lowest in proportion to area. This unit has only 645 miles of metalled roads. Sind is fairly well supplied with roads if we look at the total roads in relation to area and population. But when we remember that only about 5% of tnese roads are metalled this province is the most poorly supplied with this necessity of civilization. The metalled road mileage in Sind (494) is less than even that in Baluchistan while the population of Sind is eight times that of Baluchistan.

The Province of East Bengal has the highest density of population and hence the lowest road mileage per lakh of inhabitants. In relation to area its road mileage does not compare badly with the other provinces. But when we remember that only 13.5 percent of the total roads are metalled its position does not appear to be satisfactory.

Of all the provinces the Punjab is best off in the matter of roads. While about one quarter of its road mileage is metalled it has above the average proportion of roads both as regards area and population. Moreovers the proportion of roads of economic utility in this province is higher than in the N.W.F.P. which otherwise stands first in the matter of roads in Pakistan. Even in the Punjab, however, roads are inadequate for the needs of the people. They are meager compared to more advanced countries both in relation to area and population.

13. Future Road Development in Pakistan. A Road Transport Conference was held at Karachi in May, 1949 to devise ways and means of improving the road transport system of Pakistan. It recommended the establishment of a Central Transport Advisory Council. The functions of this body which would consist of the representatives of the Central, Provincial and State Governments, would be advisory. The Council would make recommendations aiming at evolving a policy for the development of a co ordinated system of transport within the Country.

Pakistan has already set up a non-official body—the Pakistan Road Congress. A Central Road Fund will be created to finance the development of roads. Such a Fund, we have seen, existed in pre-division India, though its money was not always utilised for purposes of road development. Since November, 1947 in the Indian union the proceeds of the special petrol tax after retaining a reserve of 15% for administration research etc. are allocated among the various provinces and states in the ratio of their petrol consumption. These sums are spent on construction, reconstruction or substantial improvement of roads and bridges including the cost of preparing road schemes. It is hoped that a similar policy will be followed in Pakistan

Pakistan's recently established Road Congress will function on the lines of the Indian Road Congress and will be charged with the preparation of blue prints for road developments of the country. It will also render advice to provincial and Central Governments on technical matters relating to road construction. A Central Road Organization will be established for the purpose of co-ordinating the road development programmes of the provinces and the states. It will prepare road development plans in consultation with provincial governments. It will have the Central Road Fund at its disposal to make allocations to the various provinces for carrying out their road development schemes.

Generous provision is made in the recently published Six Years Plan of Economic Development of Pakistan, for the expansion and improvement of transport facilities. A Conference of Chief Engineers was held on February, 27th, 1951 at Karachi to finalise the Road Development Plans for Pakistan. The President of the Conference (Joint Secretary Ministry of Communications) revealed that there is a provision for construction of 10,000 miles of new roads under the Six Years Plan. The plans received from provices and states would cost Rs. 91 crores during the next five years. All these steps are in the right directian and it is hoped

these plans will be implemented at an early date because adequate road transport facilities are a condition of any large scale economic development.

14. **Nationalisation of Road Transport**—At the end we may say a few words about the policy of nationalisation of Road Traffic. Road traffic until recently was a field for cut throat competition among private adventurers. They supplied the worst kind of service at the highest cost. Moreover, as we have seen, before World War II, their unscrupulous methods had endangered the financial solvency of the Railways by accentuating the problem of rail road competition. This problem will arise again as soon as the normal conditions are restored. Road transport has been regulated and certain standards are being enforced. But the best solution of this potential danger is to nationalise the road traffic. We are glad to know that the Pakistan Government have already accepted the policy that road transport should be nationalised by stages over a period of five years. For the present nationalised services would be confined to passenger services in the Punjab, N.W.F.P. and Sind. It is intended that the provincial governments should constitute Boards of management for the running of these services. These will have seven members each, three of whom will represent the central government. The government will have through the Railway 25% of the share capital. Necessary Legislation is being introduced in the Parliament.

Some provinces have already established their transport authority over certain sections of the roads and buses and lorries are run by provincial governments. It is hoped that this system would be extended until all public traffic is brought under the ownership, administration, and control of the state. When both the Railways and the roads traffic are under national control the problem of their co-ordination will present no serious difficulty. In addition this step will greatly help in the improvement of provincial finances. It is already being realised that the provinces are being starved of funds since their sources of revenue are of an inelastic nature. Some of the provincial sources like the sale tax and the estate duty have been centralised. Income from road traffic will be a good new source which will expand with the economic development of the country.

In conclusion we might say that the present position of road transport in Pakistan suggests that the country: (a) must increase considerably the mileage of metalled roads which is very meagre at present ; (b) must pay special attention to the rural areas where road facilities are specially unsatisfactory ; (c)

must construct new roads with an eye on the economic needs of the country. In other words roads should serve as feeders to the railways and not as competitors. In our road programme, we should aim at linking all the important centres of population with each other, and all the important centres of production and marketing with some or other of the railway stations. Further, the policy of nationalization of road traffic initiated in some provinces should be vigorously pursued by all in the interest of better service, greater co-ordination and improved provincial finances. Finally we would suggest that the movement of wooden or iron wheeled carts on metalled roads should be discouraged. If the carts could be provided with pneumatic tyres subsidised by the government it would save the roads and would also reduce the strain on animal power considerably.

15. Inland Waterways—Water transport is among the oldest and cheapest methods of moving goods and men. It is cheap, because it involves very little of overhead expenditure in the form of permanent ways, signals, stations, road constructions etc. It is specially useful for carrying bulky commodities like coal, timber, raw jute etc. Its main drawbacks are the slowness of speed, the necessity of a particular kind of configuration of the country and perennial water supply. In Pakistan the plains of the West Punjab through which pass the five famous rivers are well suited for transport purposes. In East Bengal also the Brahamputra and its tributaries are navigable for thousands of miles Inland water transport in India did not receive adequate attention on the part of the Government. The British Government was more interested in the development of Railways which they regarded as of greater importance from the political and strategic points of view. It is interesting to note that the River Indus is said to be navigable up to Attock—nearly 1,200 miles from the sea. In 1883 alone it carried goods worth nearly Rs. 1 crore. With the construction of Railways in the Punjab and Sind a demand from the share holders of the railway led to the stoppage of inland navigation by cheap river transport. Now that Pakistan has become an independent country, the Government should give proper attention to this most cheap and useful method of transport. Improvement in this connection can be achieved mainly by four methods: (1) improving the navigability of rivers by deepening their beds and controlling their courses and supplying other amenities and conveniences on the way; (2) by constructing new artificial waterways wherever possible. Canals in the Punjab and Sind could be used for this purpose by enlarging them and deepening them and by constructing bridges under which traffic could pass.

(3) as far as possible, power-driven boats should be introduced instead of the country-craft as at present (4) provision of navigation locks—The construction of dams for canal irrigation without provision of navigation locks has been another impediment in the way of inland navigation on the Indus. It is now proposed to have navigation channels in all barrages to be built in the future and to provide by-pass channels in the existing dims.

East Pakistan is much more suitable for water transport since it has a network of rivers and water-channels. There are about 2,800 miles of navigable rivers in East Pakistan. In the larger rivers steamers of 400 to 600 tons ply while country craft provide communications between villages. If these water courses are properly trained and improved they will slove not only the problem of transport, but also the problem of periodic *floods which now and again lead to enormous damage to life*, property and crops. We have already referred to certain schemes in hand in this connection in a previous chapter.[1]

16. **Shipping**—Pre-partition India had no merchant marine worth the name. Though it commanded 3% share of the total world trade, it possessed only. 24% of the total world tonnage. The total tonnage of its seventy ships came to 1·5 lakh tons and these ships handled about a quarter of the Indian coastal trade, which was about 2 p.c. of the overseas trade of the continent. As a result of division Pakistan was left with no shipping since there were no shipping companies registered either in Karachi or Chittagong. So far two Muslim Companies have been registered at Karachi the total tonnage of their two ships being not more than 33,000 tons.

In Karachi, Pakistan has one of the best ports in the world. It was the third largest sea port of undivided India. It has 21 berths varying in length from 430 feet to 600 feet, giving a continuous frontage of 19,925 feet. It can handle over 3 million tons of goods annually and has a covered space for storage purposes for 70,000 shipping tons of goods in transit and for 228,000 shipping tons of goods under longer storage. In addition it has an open space for 70,000 tons of transit goods and 617,000 tons of storage goods. Private warehouses provide an additional 900,000 sq. feet of space. The storage areas are connected with rail. This port is adequate to meet the needs of West Pakistan.

Our Second port *i.e.* Chittagong is also being developed. At the time of partition the capacity of this port was only 0.75 tons a year. After partition this port had to bear the entire burden of export and import traffic because Calcutta—the main

[1] See P. 42.

port of undivided Bengal was now in foreign territory. The port was not equipped for this purpose. The Government, therefore, immediately undertook schemes for its development. Two kinds of plans were made. The long period plan and short period plan. The long period plan included (*i*) the increase in the number of berths from 4 to 11 equipped with up-to-date facilities and terminal yards and ware houses. (*ii*) Construction of new Offices for the port and custom authorities and a housing estate for the port and custom staff. (*iii*) Construction of transit sheds sidings and marshalling yards lighterage jetties with sheds and railway sidings (*iv*) Provision of equipment such as heavy lift cranes, mobile trucks, shunting locomotives etc. and (*v*) the provision of roads lighting power, water and other services and river training works. When the plan is fully implemented the capacity of the port will increase to 3 million tons. The aim of the Government is to transform Chittagong into one of the largest ports of the East.

As regards the short term plan, its aim was to relieve congestion as quickly as possible. The plan consisted of extension of two of the four existing jetties, extension and reconstruction of two existing sheds A separate jetty was to be built for salt. Provision was also made for rebuilding of the marshalling yards dismantled during the war and for supplying moorings for midstream loading and unloading together with lighterage jetties. The work already completed includes constuction of the salt jetty, the extension of a berth and a transit shed, the re-erection of storage shed and the rebuilding of the railway marshalling yard. By the beginning of 1950 most of the short term plan had been completed and the capacity of the port had been increased to 1½ million tons per annum *i.e.* almost three times the capacity at the time of partition.

In addition to these two major ports the Government of *Pakistan is trying to develop two more ports of minor im*portance. One is Chalna-East Bengal and the other at Pasin on the Makran coast in the Persian Gulf. The former is expected to relieve pressure from the port of Chittagong and the latter from that of Karachi.

It is of the utmost importance for Pakistan to have a first class Mercantile Marine. Foreign trade is going to be a very important factor for the prosperity of this country. Moreover, since the two parts of the Dominion are separated by over a thousand miles of foreign territory, increase in sea communications will be a valuable alternative. We are glad to know, that the Pakistan Government has the establishment of

Mercantile Marine under consideration. As an adjunct to such a scheme there will be a "Merchantman" operated by a fleet auxiliary for the carriage of Government Cargo and personnel between the two wings of Pakistan. At present there are two Pakistan shipping companies—Messrs, Mohammadi Steamship Co. Ltd., and the East and West Steamship Co. In addition there are two smaller Companies—the Karachi Steam Navigation Co. Ltd., and Pakistan Steamship Co. Ltd. These companties control about 140,000 tons of shipping. But they are merely cargo vessels.

The Government proposes to establish a Railway River Transport Board to co-ordinate traffic by rail, steam and country craft. The E. B. Railway has a scheme to construct a Flotilla to cover rivers in East Pakistan. It will cost about Rs. one crore.

There is a scheme under contemplation of the Pakistan Gavernment aiming at the development of ship building and ship repairing industry in the country. It will consist of four units—two for Karachi and one each for Naraingani and Chittagong—for manufacturing river, coastal, and harbour craft and for ship repairing. The scheme provides for a modern dry dock at Karachi for repairs to ocean going liners. A dry dock will be constructed at Chittagong and a shipway at Naraingani for small craft. The scheme will be completed by 1954. It is proposed to expand the merchant fleet of Pakistan from a tonnage of 120,000 to 150,000 in ten years' time The officers for the indegenous fleet will be trained in the proposed Mercantile Marine Academy. A Control of Shipping Bill has been passed to protect and encourage the National Mercantile Marine. Under this law no ship is allowed to engage in coastal traffic except under licence of the shipping authority of Pakistan.

17. **Air Transport**—Air transport is of special importance to Pakistan, because the Eastern and Western parts of the country are separated by a distance of over a thousand miles of foreign territory. Two years ago India introduced the Permit System for those crossing the border to Pakistan and Pakistan also followed suit. This has created difficulties in the movement of people by the overland route. The sea route is very long, expensive and inconvenient. Moreover, it consumes an inordinate amount of time.

Air communication, therefore, is likely to become the main means of travel between the East and the West Pakistan, especially for people whose movements are necessitated by economic, political or administrative reasons,

Thus along with other reasons which apply to all the countries of the world, Pakistan has an additional reason for giving attentinn to this particular means of transport. It appears that the Government of Pakistan is fully alive to this necessity.

At the time of partition there was only one Air Transport Company registered in Pakistan *i.e.* the Orient Airways Ltd., but its operations were limited to the Calcutta-Akyab Rangoon service. Under the Standstill Agreement with India this service was allowed to continue and new services were introduced under a temporary agreement enforced from 1st Oct. 1947. Later, Air services were also started from East to West Pakistan, and from Karach to Quetta, Lahore, Rawalpindi and Peshawar. Services were also started between Calcutta, Dacca and Chittagong. From March 11, 1948, a service was introduced from Karachi to Ahmedabad and Bombay. As a result of these services the average monthly mileage covered by Orient Airways increased from 41,880 miles at the time of partition to 1,43,983 miles in June, 1948. During the same period the number of services increased from one to seven and the total mileage of routes from 685 to 4960 miles.

On December 4, 1947, the Government announced their policy regarding the long range problem of Air Transport, accord ing to which the operations of Scheduled Air Services were to be left to private enterprise subject to control and regulation by the Government through a system of Licences and definite alloca tion of routes. The number of companies was to be limited to two only with Pakistan capital and under the control of Pakistan nationals. These were granted air transport licences in June, 1948. Further, an Air Transport Advisory Board was set up whose recommendations were accepted by the Government. The two companies to whom the Air Transport Licences were granted were 'The Orient Airways Ltd.' and 'The Pak Air Limited'. The services and the minimum frequencies to be operated in each direction by the two companies were fixed. The Orient Airways now owns a fleet of 23 air craft mostly Douglas D. C. type. The Pak Air (whose operations are in suspense at the moment) had 8 air crafts. On the basis of figures for March 31st, 1949 these companies operated 9 scheduled services and the route mileage covered by them was 14,876 miles.

Since there was not a single air company with its head quarters in Pakistan at the time of partition the country entirely lacked facilities for repairs and maintenance of air craft. Govern ment's policy regarding Air Transport also provided for the

formation of a company to provide common facilities required by the Air lines and by the Royal Pakistan Air force, particularly facilities for repair and overhaul of aircrafts and training of aircraft mechanics and maintenance of engineers. For this purpose in June, 1948, the Government approved the formation of a company to be called "Pakistan Aviation Ltd." which was to be financed, directed and controlled by the Government and the two Pakistan Air lines in partnership. In this company Government has a controlling interest. The Airship Hanger at Karachi Airport, was taken over by the campany for its operations. It has been estimated that this organisation will ultimately be required to overhaul more than seventy air frames and 400 engines annually, requiring a staff of at least 500 technicians.

In view of the size of the country and the vast distances involved the number of airports in Pakistan is inadequate. At the moment there are aerodromes at Karachi, Lahore, Rawalpindi Peshawar, Chittagong, Dacca, Sylhet, Hyderabad (Sind) Jacobabad; Multan and Quetta. There are landing fields at Comila and Feni in East Pakistan. In addition a few emergency air fields, exist which were constructed during the war. In Karachi, Pakistan possesses one of the finest airports in the world. It lies on the international trunk routes and its further development should be a matter of the first importance for Pakistan.

The Government of Pakistan soon after partition notified its adherence to the Convention on International Civil Aviation and to the International Air Services Transport Agreement. This latter commits Pakistan to observe international standards in this respect. It has also become a member of the International Civil Aviation Organisation and of the Commonwelth Air Transport Council. Pakistan inherited from undividend India her obligations under agreements for operations of Air services, with the U. S. A., France and the Netherlands. Now we have concluded Transport Agreements with other countries including U. K., India, Ceylon Sweden, Burma, Iraq, Ethiopia, and Iran. Similar agreements with other countries are under contemplation.

Regarding the future plans of the Government, Karachi and Chittagong Air Ports will be further developed to the standard of first class International aerodromes. Lahore, Rawalpindi and Dacca will be II class aerodromes (where planes weighing upto 70,000 lbs can land; and Hyderabad (Sind), Jacobabad, Multan, Quetta and Sylhet as III class aerodrumes (where planes upto 40,000 lbs. can land). Karachi aerodrome is being developed in order to enable it to receive jet propelled heavy aircraft which is

expected to fly commercially between Karachi and London (in 12 to 15 hours) in the near future. An international air line is also under consideration by the Pakistan Government, which may be opened in the near future.

As regards the future policy the Pakistan Government can act in two directions. Air traval needs encouragement especially between the two wings of Pakistan. The factors that stand in the way of making Pakistanis air minded are the high expense and risks involved. Apart from enforcing high standards of efficiency the Pakistan Government can act in two directions to this end, (1) subsidisation of Air Transport Services between Eastern and Western Pakistan and (2) Provision of Insurance against risks of Air Travel.

Air travel between Eastern and Western Pakistan is very costly and is beyond the pockets of the poor and middle classes. In the interest of creating bonds of solidarity through frequent contacts between the citizens of Pakistan living in these two regions, it is necessary that Air travel between them should be encouraged by making it reasonably cheap for the people of moderate means and this can only be done through a subsidy on the part of the Government.

As regards Insurance, it may be pointed out that Air crashes have been rather frequent in the world in recenty years. Mostly people are scared on account of these mishaps. The policy of insuring the risks of Air travel will go a long in removing at least part of the fears which people entertain about this form of travel these days.

CHAPTER XXI

CURRENCY AND EXCHANGE

Pre-Partition

1. **Introduction.**—To understand properly the present currency position in Pakistan it is necessary to trace the Indian currency history for the last hundred years. During this time India had experience of silver standard, a gold exchange standard, a gold bullion standard and a sterling exchange standard. Throughout the period, there was an under-current of demand on the part of Indian opinion, sometimes also supported by high Government officials, for a full-fledged gold standard with gold coins circulating as currency. This ideal remains in public mind no longer in this or any other country and its possibilities now are remote, specially since the creation of the International Monetary Fund. From the past experience, how ever, guidance may be derived for future action in the domain of currency policy.

2. **Establishment of Silver Standard, (1835):**—The silver mono-metallism was established in India by the Currency Act of 1835. Before that date, the silver rupee and gold muhr were current in Muslim India since Akbar's time and in the South gold was the principal currency. In addition, there was a bewildering variety of coins, current in different parts of the country, when the East India Company came upon the scene.[1] And it was their desire for a uniform currency system, in the interests of trade, that culminated in the passing of the Act of 1835.

Under the silver standard, any one could take silver to the mint and could get it coined into rupees weighing 180 grains (11/12 fine) free of charge. Gold, however, did not entirely disappear from the field. The Act of 1835 authorized the coinage of gold coins if required by the public; and a notification of 1841 authorized public treasuries freely to receive gold coins (gold muhrs) at their face value *i.e.*, at the rate of 15 : 1, in payment of public dues. This notification was withdrawn in 1852, when large

1. According to an estimate, 994 different gold and silver coins of varying weights and fineness were current.

quantities of gold coins began to accumulate in the public treasuries, due to the fall in rhe price of gold. Again, between 1864 and 1878, the Government authorized receipt of gold coins into public treasuries at lower rates. With these exceptions, the authorities kept to the policy of silver mono-metallism, in spite of agitations[1] now and again in favour of a gold currency, up to the year 1893.

3. Breakdown of the Silver Standard.—Difficulties began to arise in the working of the silver standard after 1874, due to the fall[2] in the gold price of silver, which began about that time. The rupee being a full-bodied silver coin freely minted, its value (rate of exchange) in terms of gold (or sterling) fell with the fall of the gold value of silver, as is shown in the following table :—

Period				Price of silver per oz. d	Rate of exchange per rupee. d
Average, 5 years ending	1880	...	...	53	20·5
" "	1885	...	...	51	19.6
" "	1890	...	...	44	17·1
Average for the years ending March 31	1891	...	...	47	18·0
" "	1892	...	...	45	16·7
" "	1893	...	...	39	14.9

The fall in rhe gold price of silver was due, partly to the greater supply of, and contraction in, rhe demand for silver, and partly ro the smaller production of gold on the one hand and rhe greater demand for this metal on accounr of substitution of gold currency in place of silver by a large number of European countries,[3] on the orher.

1. 1859—Bengal Chamber of Commerce made representation to the Governor-General for gold currency; 1864—Commercial communities of Bombay, Madras and Calcutta sent memorials to the same effect, and Charles Trevelyan recommended putting of gold on the same status as silver; 1866—Mansfield Commission, appointed as a result of representations for gold currency by Calcutta Chamber of Commerce. They recommended gold currency; but their report was shelved by the Government; 1872—Sir Richard Temple, in a note recommended gold standard In 1874 the Government of India decided not to accept the proposal.

2. There was a rise in the price of silver between 1890 and 1892 on account of the U.S.A. policy (under pressure of silver producers) of purchasing 4½ million ounces, of silver every month, under Sherman Act (1890) against the issue of treasury notes. These purchases became ineffective later, due to agitation against the Act and the danger of the accumulated silver falling on the market later on

3. Germany and the Latin Union (France, Switzerland, Belgium and Italy.

The consequences of the fall in the value of silver were serious. It paid people to purchase silver cheap and get it coined into rupees from the mints. This led to a general rise in prices, due to the increase in the amount of money in circulation. The import trade also suffered, because more silver rupees were required to pay for imports of a given value in sterling The trade in general, including exports, was also unfavourably affected due to the element of uncertainty regarding the rate of exchange. Moreover, the European officials in India demanded allowances to make up for the loss they suffered in meeting their sterling obligations in England. But the greatest problem that arose, was in connection with the payment of what are called 'Home Charges'. These were, payments to be made by India in the United Kingdom to meet salaries and pensions of British officets in Indian service there, her obligations in connection with interest on sterling debt, prices of stores purchased, and shipping services rendered to India. The fluctuating exchange introduced considerable amount of uncertainty in budgeting for the 'Home Charges', besides increasing their burden in terms of rupees. As the Finance Member of the time pointed out, a fall of one penny in exchange would have meant a deficit of three crores of rupees in the budget[1] while a rise of one penny would have led to a surplus.

Something had to be done. The Government tried a number of alternatives, but ultimately the matter was referred to a committee under the chairmanship of Lord Herschell. The Committee reported in 1893 and recommended the closing of the mints to the free coinage of both gold and silver. This was done by the the Coinage Act of 1893, and the silver standard was ended.

4. **Towards a Gold Standard.**—But what system was to take the place of the silver standard? The Herschell Committee had proposed that "the closing of the mints against the free coinage of silver should be accompanied by an announcement that, though closed to the public, they will be used by the Government for the coinage of rupees in exchange for gold, at a ratio to be then fixed, say at 1s. 4d. per rupee; and that at the Government treasuries gold will be received in satisfaction of public dues at the same rates."[2] Along with Act VIII of 1893, therefore, three notifications were issued (Nos. 2662-4 of 26th June, 1893), by which arrangements were made; (i) for the

1. Herschell Committee Report, para. 5.
2. Ibid.

receipt of sovereigns and half-sovereigns in payment of sums due to Government at the rate of Rs. 15 for a sovereign; (ii) for the receipt of gold at 16d. per rupee; (iii) for the issue of currency notes to the Comptroller-General in exchange either for British gold at the above rates, or for gold bullion at a corresponding rate.[1] Thus the rupee having lost its "natural" value, after suspension of its free coinage, was given an artificial value of 1s. 4d. per £ sterling.

As there was redundancy of rupees, it was sometime before its value came up to 1s. 4. The Indian exchange fell to 1s. 31/32d. on January 23, 1895, after which date it rose slowly and steadily for a period of 36 months, till in January, 1898, it reached the legal ratio of 1s. 4d. After this it moved around that point.

In 1898 an Act was passed which authorized the issue of currency notes against gold received in England by the Secretary of State at the rate of one rupee per 7.53344 grains of fine gold, plus the cost of shipping gold to India. This gold was to be kept in the Bank of England earmarked as a part of the Indian Paper Currency Reserve. The Secretary of State under a notification (January 21, 1898) announced his readiness to sell telegraphic transfers on Calcutta, Bombay and Madras, at a rate not exceeding 1s. 45/32d. per rupee.

The object of the currency reforms of 1893-98 was (i) to prevent a further fall in the gold value of the rupee, (ii) familiarize the people of India with the use of gold without forcing it upon them, and (iii) to stabilize the rupee sterling ratio at 1s. 4d. per rupee. Obviously the measures were both experimental and transitional. The ultimate aim was the introduction of a gold standard with gold coins and rupees in concurrent circulation at a fixed ratio, the rupee being reduced to the status of full legal tender token money.[2]

When the actual rate of exchange, therefore, reached the point fixed by law in January, 1898, the Government of India asked the Secretary of State to terminate the period of transition, and submitted a scheme for the introduction of a gold standard. It was to examine this scheme that a committee was appointed under Sir Henry Fowler in April, 1898.

Fowler Committee.—The Committee considered some other proposals besides the one submitted by the Government of India. One of these aimed at reopening of the mints to the free coinage

1. Fowler Committee Report, para. 13.
2. H. L. Dey in Economic Problems of Modern India, Vol. II, p. 219.

of silver. This was rejected on the ground that it would expose the Indian currency system to the same risks and uncertainties as were experienced during 1878-93. Then there was a scheme by Leslie Probyn and another by Mr. Lindsay. The latter scheme has an historical significance, because it was on the lines proposed in this scheme that the Indian currency system developed later. Both these schemes aimed at economising gold. L. Probyn suggested a form of gold bullion standard, and Lindsay, what was later known as, the gold exchange standard. The Committee rejected both the schemes on the ground that there was no precedent in their favour and that orthodox opinion was against them.

In the place of these schemes, the Committee favoured the ultimate establishment in India of a gold standard with gold currency ; and to this end they proposed (i) that the British sovereigns and half-sovereigns should be made legal tender and current coins in India ; (ii) that the Indian mints should be thrown open to the unrestricted coinage of gold into sovereign as in the three Australian branches of the Royal mint ; (iii) that the rate of exchange should be permanently fixed at 1s. 4d.; (iv) that rupees, should be of restricted coinage and unlimited legal tender and should not be legally converted into gold, *i.e.*, for internal purposes (v) that gold from the reserves should be freely available in exchange for rupees whenever the rate of exchange tended to fall below the gold-export point ; (vi) that coining of fresh rupees should not be undertaken till such a time as gold in actual circulation tended to rise above reasonable proportions ; and finally (vii) that the profits of rupee coinage should be kept aside as a special reserve called the Gold Standard Reserve.

5. The Evolution of the Gold Exchange Standard.—The Government accepted all these proposals and started taking measures to implement them. Thus :

(1) The Indian Act No. XXII of 1899 was passed making the sovereign and half-sovereign legal tender throughout India at Rs. 15 to the £.

(ii) Active steps were taken as regards the opening of a mint for the coinage of gold in India, but the scheme was dropped in 1902 mainly because the British Treasury had raised technical difficulties and in the meantime an attempt to introduce gold coins into active circulation had failed.

(iii) The Gold Standard Reserve came into existence in 1900 out of the profits of rupee coinage when it was resumed that year for the first time since 1893.

The Two Reserves.—We have already seen that an Act of 1898 authorized the issue of notes in India against gold deposited in London earmarked at the Bank of England as part of the Paper Currency Reserve. This Act was at first intended to be temporary. "Its effect was to facilitate Government remittances to London, to add to the gold resources of India, and to give some elasticity to the currency by allowing the issue of rupees or notes in India against gold tendered in London But this additional issue of currency against gold tendered in London added to the drain on rupee reserves of the Government of India."[1]

In view of the drain the Government of India, implementing the recommendations of the Fowler Committee, made an active effort to induce people to use sovereigns as currency. The currency offices and post offices were instructed to pass on sovereigns to the public as far as possible. The results, however, were unsatisfactory. The sovereigns and currency notes went to a discount as against the rupees. "Special demands for rupee, owing to famine conditions and the inadequacy of the supplies of the favourite circulating medium, combined to aggravate the general monetary stringency."[2]

It was thus that the Government had to resume coinage of rupees in 1900 on a considerable scale. This led to a recourse to the London silver market. The Act of 1898 was extended for a period of two years, "with the addition of a provision authorizing the use of the gold in the paper currency chest in London for the purchase of silver for coinage of rupees and the treatment of the silver so purchased as part of the Reserve against notes in circulation during the interval between purchase and mintage"[3]. This arrangement was made permanent by an Act of 1902. In 1905, 5,000,000 sovereigns were shipped to London from the accumulated stock of gold in the Paper Currency Reserve in India, to be kept in the Reserve in London for purchase of silver for the coinage of rupees when required. Thus arose the London branch of the Paper Currency Reserve.

As regards the gold reserve formed out of the profits of rupees-coinage, the idea of the Government of India seemed to have been to keep the gold locked up in a special chest in India. But the Secretary of State decided that it should be remitted to London and invested in sterling securities. It was held that it would be more useful in London where it would have to be

1. Chamberlain Commission Report, para 24.
2. Ibid. Para 25.
3. Ibid. Para 26.

applied if an emergency arose. The profits of coinage were thus remitted to London for some years after 1901. This came to be called the Gold Standard Reserve.

Thus were created the Gold Standard Reserve and the Paper Currency Reserve (London branch) in London.

In 1906 an Indian branch of the Gold Standard Reserve was created which was to be kept in the form of rupee coins. This was necessitated for meeting the demand for rupees at a short notice and was to be used to prevent the rate of exchange going to a premium over 1s. 4d. This was created by holding the profits in the coinage of rupees in the Reserve in the form of rupees in India, instead of converting them into sterling held in London. It was then that the name Gold Standard Reserve was applied to these two branches of the Reserve for the first time—one in India in the form of silver rupees and the other in London in the form of sterling securities.

Upper Specie Point Fixed : In the meantime another development had taken place. The practice of shipping gold from India to London (from the Paper Currency Reserve in India to the Reserves in London) was found to be needlessly expensive. "The gold, it was seen, reached India in the first place at the cost of individuals, and then had to be shipped back to London by and at the cost of Government, after the public had handed it on to the Government, in exchange for rupees[1]." This expense could be saved by the extension of the practice of raceiving gold in London in exchange for rupees in India. Since 1898 the Secretary of State used to draw the Home Charges by selling Council Drafts for Gold in London against the issue of notes in India. In 1904 the Secretary of State announced his willingness to sell, Council Drafts (called Council Bills) without limit at 1s. 4⅛d.—the gold export point from London. When the treasury balances were not sufficient to meet these Bills (when demand for them was very high to pay for a large favourable balance of India's trade) they were met by the withdrawal of rupees from the Paper Currency Reserve in India against a corresponding deposit of gold in the currency chest in London. Meanwhile silver was purchased in London out of these proceeds and sent to Indla to be coined into rupees.

Some gold, however, still continued to come to India from Egypt and Australia and had to be shipped to London time and again. To avoid this expense also in 1905 it was decided to offer telegraphic transfers against sovereigns in transit from Egypt

(1) Chamberlain Commission Report Para 31.

or Australia to India at such rates as to make it worth-while for the owners of such sovereigns to divert them from India to London.

Thus it was that the upper limit of the fluctuations of the rupee-sterling exchange got fixed at 1s. 4⅛d. The exchange could not rise above this point as long as the Secretary of State was willing to sell Council Bills at that price. But the exchange could fall below the gold export point from India. But, normally, India's balance of trade being favourable such a contingency was regarded as extremely remote. In fact in June 1907 a Committee appointed on Indian Railway Finance recommened that a part of the profits from coinage should be diverted to capital expenditure on Railways, and the Secretary of State agreed with this view and in fact proceeded to use over a million pounds for this purpose saying that " the danger of a fall in exchange is illusory, having regard to the present conditions of trade, the amount of securities in the Gold Standard Reserve, and of gold in the Currency Reserve."[1]

Lower Specie Point Fixed : —This danger, however, was not illusory as was proved before the same year was out The partial failure of the summer monsoon in 1907, and the general monetary stringency all over the world which accompanied the American financial crisis in the autumn of 1907, caused the Indian exchange to become very weak in November of that year. The stock of sovereigns in the Paper Currency Reserve in India began to fall, their place being taken by rupees. The Government refused to sell telegraphic transfer on London and also refused to give gold except in small quantities. The exchange fell to as low as 1s. 3-23/32d. on 23rd November. The exchange did not improve until the Indian Government agreed to sell telegraphic transfers and later sterling bills on London the price of which was ultimately fixed at 1s. 3.29/32 d. the gold export point from India. In all, over £8 million were withdrawn from the Gold Standard Reserve to meet these bills (later called Reverse Councils).

The net result of all these measures—forced on the Government by circumstances,—was the emergence of a system usually described as the Gold Exchange Standard and not the system originally aimed at and recommended by the Fowler Committee *i.e.*, Gold Standard with gold currency.

6. **Main Features** :— The main features of the new system were :—

1. Chamberlain Report, para. 36.

(1) The internal currency consisted of the rupee which though a token coin was also the standard of value, the notes (issued by the Government) and small subsidiary coins, which were legal tender. There were also in circulation sovereigns in a limited quantity.

(2) The rupee was convertible into gold only for external purposes at the rate of 16d. to a rupee.

(3) The sterling (gold) value of the rupee was regulated between 1s. $4\frac{1}{8}$d. (the upper specie point) and 1s. 3'29/32d. (the lower specie point) through sale of Council Bills and Reverse Councils respectively.

(4) To work this system two reserves were maintained, one in India mainly in rupees and the other in London in sterling. The Indian reserve was constituted by (*i*) the Indian portion of the Paper Currency Reserve ; (*ii*) the silver branch of the Gold Standard Reserve ; and (*iii*) the treasury balances of the Government. The London reserve consisted of (*i*) the London branch of the Paper Currency Reserve ; (*ii*) the Gold Standard Reserve, and (*iii*) the balances of the Secretary of State. These reserves were created for separate purposes, but in practice they were available for the support of exchange in the case of necessity.

This system worked quite smoothly until it broke down during the Great War (1914-18). In the meantime it had received the approval of the Chamberlain Commission.

7. **Chamberlain Commission** :—The Chamberlain Commission was appointed in April 1913, under the chairmanship of Austin Chamberlain to examine the mechanism of Indian currency and exchange and to suggest measures for its improvement. The Commission in their report (issued February 1914), approved of the various meaures taken by the Government to stabilize exchange. They were of the definite opinion that the gold exchange standard was not only workable but was eminently suited for India, because of the absence in the country of a well-developed banking system, and on account of its cheapness. Due to the hoarding habit of the people they considered a gold standard with gold currency, as proposed by the Fowler Committee, as absolutely undesirable. They had no objection in principle to minting in India of sovereigns and half-sovereigns. Indian people genuinely demanded them and the Government were ready to incur the expense. Among the minor alterations proposed in the system by the Commission were the prompt selling of Reverse Council Bills and the abolition of the silver branch of the Gold Standard Reserve. They also emphasized

the need for maintaining adequate reserve of gold and sterling securities in London for the purpose of converting internal currency into external or international currency. Before the recommendations of the Commission could be properly considered the war broke out and threw the currency system into the melting-pot.

8. Breakdown of the Gold Exchange Standard :—The war began in August 1914. The first effect of the war was a general loss of confidence on the part of the people with the result that there was a rush for encashment of notes and withdrawals of deposits from the banks. The exchange showed signs of weakness on account of disturbance of trade. But soon the Government was able to restore confidence by providing adequate facilities for encashment of notes and for the withdrawal of deposits from the savings banks. To support exchange, Reverse Councils to the value of about £ 9,000,000 were sold. The uncertainty of the delivery of bills in London was eliminated by an arrangement by which payments could be made in London sixteen days after the departure of the weekly mail.

The real trouble, however, began in 1916 which ultimately led to the breakdown of the Gold Exchange Standard. For the success of the system it was necessary that the Government should be able to maintain the stability of exchange. This the Government failed to do, because an excessive demand for rupees arose at a time when the price of silver was rising to an unprecedented level.

The excessive demand for rupees was due to :—(*i*) excess of exports over imports and hence an increase in the export surplus in favour of India. The average excess of exports during the three years ending 1918-19 was £59.6 millions, as against the average of £53.4 millions for the three pre-war years. The increase in the favourable balance of trade was due to (*a*) falling off in imports due to shipping difficulties and other circumstances of war, and (b) stimulation of exports on account of greater demand for Indian materials for war purposes on the part of Great Britain and her Allies.

(*ii*) Demand for currency was further aggravated because of the need for making payments on account of troops engaged and supplies in the Eastern theatres of war (Mesopotamia, Persia, East Africa) for which India was the base of operations. During the period of the war more than £24,000,000 were spent by the Government on this account.

(*iii*) Further there was need for financing purchases in India on behalf of Dominions, Colonies and America.

Before the war, part of the normal favourable balance of trade was liquidated by the imports of silver and gold. These means were now not available due to restrictions on the movements of precious metals.[1] This caused the demand on the Government to supply additional currency. To meet this growing demand the Government had to purchase silver at rising prices.

The rise in the price of silver was very marked. In 1915 it was a little over 27d. per oz., by the end of 1916 it had reached 43d, (the point at which the bullion value of the rupee was equal to its face value at 1s. 4d. rate of exchange). In September 1917 the price of silver reached 55d. After remaining steady at this point due to control imposed by U.S.A. the price jumped to 78d. in December 1919, the control having been removed in May 1919. It reached its highest level in February 1920, when it stood at 89½d. per oz.

The rise in the price of silver was caused by (1) shortage of supply specially from Mexico where production fell due to internal troubles, (*ii*) heavy demand for silver chiefly for coinage purposes, (*iii*) depreciation of the sterling in terms of dollar due to the unpegging of sterling-dollar exchange in March 1919. America being the largest supplier of silver, payments had ultimately to be made in dollars. This raised the sterling price of silver, when the sterling depreciated, even though the dollar price might not have risen.

The consequences of this rise in the price of silver on Indian exchange were serious. From August 1917, the rupee ceased to be a token coin. It paid people to melt it and sell it as silver. It was, therefore, not possible for the Government to purchase silver at the new rising price and supply rupees at Is. 4d. without incurring enormous losses. And this at a time when there was excessive demand for rupees due to reasons already noted. Moreover, the newly issued rupee coins were disappearing from circulation due to their being melted by the people.

On the 28th of August 1917, the Secretary of State raised the rate of Telegraphic Transfers from 1s.—4⅛d. to 1s. 5d. and soon it was announced that the price of the rupees would be changed according to the changes in the price of silver. This was

1. During the five years ending 1913-14 India imported treasure to the value of £120,000,000. For the five years ending 1913-19 the figure was only about £ 36,000,000.

virtually the reintroduction of the silver standard.[1] The rate of Telegraphic Transfers was thus raised from time to time until it stood at 2s. 4d, on the 12th of December 1919.

Some other measures were also taken by the Government to meet this situation :—

(i) Control of Exchange. The Secretary of State limited the sale of Council Drafts from 20th December, 1916, to an amount varying between Rs. 20 to 120 lakhs. This was to reduce the necessity of paying rupees.

Certain banks were put on the *Approved List* and were required to finance the export of war requirements. They were protected against the rise in exchange by giving them certain facilities. The idea was to confine exports only to war essentials.

(ii) Purchase of silver. Import of silver on private account was prohibited (3rd September, 1917) and the Government made large purchases of this metal from U.S.A. for coinage purposes.

(iii) Certain measures were taken to economise silver. From 29th June, 1917, the use of gold and silver for non-monetary purposes was declared illegal. From 3rd September, 1917, export of silver coin and bullion was prohibited. In December 1917 and January 1918, respectively, $2\frac{1}{2}$-rupees and one-rupee notes were issued. Nickel pieces of small denominations were coined.

(iv) The Government purchased all the gold that was imported and deposited it in the Paper Currency Reserves for notes to be issued against it. Further, gold coins were pushed into circulation.

(v) Among the financial measures taken to meet the currency difficulties were additional taxation, curtailment of capital expenditure and extensive borrowing in India.

In spite of all these measures—which were quite valuable in themselves—the Government was unable to maintain the exchange at an artificial level and thus the Gold Exchange Standard broke down.

9. The Smith Committee. After the war was over a currency committee was appointed in May 1919, under the chairmanship of Babington Smith. The Committee was to "examine the effect of the war on the Indian exchange and currency system and practice...to consider whether, in the light of this

1. Vakil and Muranjan: Currency and Prices in India, p. 112.

experience and of possible future variations in the price of silver, modifications of the system or practice may be required; to make recommendations as to...the policy that should be pursued with a view to meeting the requirements of trade, to maintaining a satisfactory monetary circulation and to ensuring a stable gold exchange standard." The Committee was thus precluded from suggesting any system other than the Gold Exchange Standard, which was to be modified in order that its stability might be ensured. Taking into account the recent variations in the price of silver and the future expectations in this respect, the Committee recommended 2s: (gold) as a safe ratio which would keep the rupee a token coin. Other advantages claimed for the high ratio were (i) that it would cheapen imported meterials and machinery. Exports, however, would not be discouraged because of the great demand for Indian produce in the world market owing to shortage of materials and foodstuffs; (ii) Government finances would gain because it would mean a saving of about Rs. 12 crores in the 'Home Charges.'

In addition, the Committee recommended opening of a mint in Bombay for the coinage of sovereigns and half-sovereigns for the public; removal of restrictions on the import and export of gold and import of silver on private account. They further recommended that the Gold Standard Reserve should contain a considerable proportion of gold and that 50 per cent. of the Gold Reserve should be kept in India. Mr. D. M. Dalal, the only Indian member of the Committee, in his Minute of Dissent recommended 1s. 4d. as the ratio and favoured the issue of two rupee coins of smaller silver content during the period of high price of silver

The Government accepted the recommendations of the majority. All war-time restrictions were removed; treasuries and currency offices were instructed to accept sovereigns and half-sovereigns at the rate of Rs. 10 and Rs. 5 respectively, but not to issue them. The gold mint was not opened.

10. The 2s. Ratio. The new ratio was adopted from the 2nd February 1920 when the Secretary of State fixed the price of one rupee at 11·30016 grains of fine gold. The 2s (gold) ratio did not work long. It fixed the price of gold at Rs. 15-14-0 per tola when actually the market price of gold at the time was Rs. 22-8-0. Hence it was impossible for the Government to supply, for long, sterling at a rate corresponding to 2s. (gold) per

1. As the market price of sovereigns continued at about Rs. 10, they never functioned as currency at the new ratio,

rupee. A great demand for sterling had arisen because of the balance of trade turning against India after 1919. "Imports had increased owing partly to the increased demand for piecegoods, the stock of which had run low at the end of the war, and partly to the stimulating effect of the rise in exchange on demand. Exports on the other hand had declined owing to a combination of adverse circumstances. In the first place Japan, one of the chief buyers of Indian cotton, was obliged to reduce her purchases because of a financial crisis there. Secondly, the demand for jute, hides and tea fell off partly because of the large stocks accumulated in England and elsewhere and partly because of the industrial uncertainty prevalent in the markets for these goods. Thirdly, India lost some of her best customers. Owing to various economic and political troubles the countries of Central Europe were not then in a position to pay for what they wished to purchase."[1] The result was that the balance of trade, that was about Rs. 11 crores in favour of India in 1919, turned to an unfavourable balance to about the same amount in the following year. Moreover, there was speculation in exchange. People began to convert rupees into sterling with the hope of making profits by reconversion of sterling into rupees when the exchange fell later. The European community also took advantage by sending their remittances at the new favourable ra e and so did the importers of good by making payments without delay for their imports. All these factors created demand for sterling. The Government had to pay more than 2s. in sterling because of the depreciation of sterling in terms of gold. Thus while the Government was selling sterling at about 3s. per rupee the actual market rate was much less. Sterling was appreciating in terms of rupee not only on account of the great demand for it in the exchange market but also because prices were falling faster in England than in India. The Government tried to maintain exchange at 2s. gold at first and at 2s. sterling later but all these attempts ultimately failed. On 28th September 1920, the Government refused to sell sterling drafts on London. But by that time Reverse Councils to the tune of £55·2 millions had been sold. These had been met in London by the sale of sterling securities and treasury bills belonging to the Paper Currency Reserve. These securities had been bought at Rs. 15 per £ and had to be sold at Rs. 7 to Rs. 10 per £ and the Governmet suffered a total loss of about Rs. 35 crores.

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1. Chablani: Indian Currency and Exchange, P.92.

The result was a continuous fall in the rate of exchange which sank to 11-9/32d. gold or 1s. 3-13/32d. sterling by July 1921, with serious consequences on Indian foreign trade.[1] The Government now allowed the exchange to adjust to world conditions in order that the Indian prices may not unduly be disturbed. By January, 1923, the exchange began to rise again, due to revival of favourable balance of trade, till it reached the level of 1s. 4d. gold or 1s. 6d sterling in October 1924. At that time the Government was pressed to stabilise it at that rate. But the Government refused to do so. By limiting the supply of currency the Government raised the ratio to 1s. 6d. gold by April 1925 A few months after this a Royal Commission was appointed to review the whole situation.

11. **Government Policy Criticised.** The policy of the Government in fixing a high exchange and then maintaining it at a considerable loss to India was severely criticised. It was argued that the price of silver was admittedly uncertain and so was the sterling-dollar rate, hence the Government should have waited for some time before taking a definite step in fixing the exchange. During this period of uncertainty the exchange should have been left free to find its own level. In fact it should not have been so difficult to foresee that exports were likely to fall off and imports to rise rapidly in the near future. "At the moment when it was sought suddenly and violently to raise the rate of exchange by the introduction of the new ratio of 2 Shillings gold, the export trade was weak and the import trade in obedience to the delivery of long deferred orders was strong."[2] Moreover, it was known that India had been starved of essential imports during the war and imports were bound to increase in the near future. "It was also known that European Companies in India had accumulated vast profits in the war period which were waiting to be remitted abroad with the return of normality[3]."

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1. "The collapse of exchange within twelve months from the level of 2s. 4d. pervailing in April 1920 to below Is. 3d, was critical for importers, many of whom had ordered goods when exchange was high without fixing their exchange and who were unable or unwilling to settle at the low rate prevailing when the goods arrived. At the close of the year the Indian ports remained congested with imported piecegoods, motor cars and other articles of which delivery had not been taken. In further contrast to the preceding year there has been an almost continuous return of rupees from circulation, a symptom of genera stagnation of trade." (Report of the Controller of Currency for 1920-21.)

2. Indian Year Books [1943-44] p. 750.

3. H. L. Dey: op. cit. p, 228.

Thus a little vision on the part of the authorities would have made them realise that forces were at work which would wreck their scheme of 2s. ratio. Had the exchange been left free to find its own level it would have settled at a lower point and thus would have served as a corrective to the impending unfavourable balance of trade. Enforcement of the high exchange, on the other hand, exaggerated the effect of these forces. The Smith Committee themselves had enunciated the principle that "a rising exchange stimulates imports and impedes exports, the effect of a falling exchange is the reverse." This very principle operated to wreck their recommendation.

The Government was criticised not merely for introducing the 2s. ratio but also for persisting to maintain it even after it had become clear that it was a hopeless task to do so. "By the end of June 1920 it was fairly clear that the task which the Government had taken upon themselves was an impossible one.[1]" But the Government still persisted in their attempt to maintain the high ratio. Mr. C. H. Kisch, Financial Secretary, India Office stated that "Government felt it incumbent upon itself to take such indirect measure as might tend towards checking the fall in exchange and as might create conditions favourable to its gradual recovery." Thus the attempt to push up exchange by indirect measures continued even after the sale of Reverse Councils had been suspended. These indirect measures consisted, among others, of contraction of currency.

Why was the Government so attached to the high exchange? "What they (the India Office) wanted was to push up exchange by deflationary measures so that it could be helpful to imports[2]." Thus it was the British interests which were guiding the policy of the Government. The idea was to encourage British imports into India by raising the value of the rupee in terms of English money. "High exchange," said Mr. Ainscough, "places the British manufacturer in a more favourable condition *vis-a-vis* his competitor in India. On the whole, therefore, his material interest would appear to be best served by the fixation of exchange at as high a rate as may be possible under the circumstances."[3] No wonder the Smith Committee's report was so favourably received by the British Press.

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1. Jathar and Beri, op. cit. p. 328.
2. G.D. Birla: Indian Currency in Retrospect (Kitabistan), p. 13.
3. Mr. Ainscough's Report on British Trade in India etc. quoted by Brij Narain : Indian Economic Problems, Part I, p. 213.

The Government policy imposed a threefold loss on India : (*i*) For her supplies to the Allies during the world war I (as in II) India was paid not in goods but in sterling credits. This accumulated sterling was squandered by the Government to the value of about £24 millions in their attempts to maintain the 2s. ratio. (*ii*) In so far as the high exchange stimulated imports it adversely affected Indian industries. (*iii*) The sudden decision of the Government to let exchange fall to its natural level ruined many Indian importers who had ordered foreign goods at the high exchange and were now required to pay more than double in terms of rupees than what they had contracted to pay. The Government's policy might have served the material interests of England but not those of India.

12. Defects of the Gold Exchange Standard : On 25th *August, 1925, a* Royal Commission *was appointed under the* chairmanship of Lieutenant-Commander Hilton Young, " to examine and report on the Indian currency system and practice. to consider whether any modifications are desirable in the interests of India, and to make recommendations."

The Commission found the following defects in the Gold Exchange Standard as it operated in India :—

(1) " The system is far from simple, and the basis of the stability of the rupee is not readily intelligible to the uninstructed public. The currency cosists of two tokens (rupee coin and rupee note) in circulation, with the unnecessary excrescence of a third full value coin (sovereign) which does not circulate at all. One form of token currency (into which there is an unlimited obligation to convert the other) is highly expensive, and is liable to vanish if the price of silver rises above a certain level.

" (2) There is a cumbrous duplication of reserves, with an antiquated, and dangerous, division of responsibility for the control of credit and currency policy.

" (3) The system does not secure the automatic expansion and contraction of currnecy. Such movements are too wholly dependent on the will of the currency authority.

" (4) The system is inelastic. The utility of the provision for elasticity made on the recommendations of the Babington Smith Committee is affected by the methods of financing Indian trade.[1]"

13. The Gold Bullion Standard: The Commission's task was threefold ; (*i*) to propose the currency system best fitted for

1. Report : *Hilton Young Commission, 1926, para 21.*

India ; (*ii*) to suggest the ratio at which the rupee should be stabilized with the sterling ; (*iii*) to recommend measures for the establishment of a Central Bank. The Commission proposed the Gold Bullion Standard as the currency system for India, 1s. 6d. as the exachange ratio, and a Central Bank—the Reserve Bank of India—to take charge of the Central Banking functions. The scheme of the Resesve Bank will demand our attention in a subsequent section. The other two proposals will be discussed here.

Before finally recommending the Gold Bullion Standard the Commission examined the *pros* and *cons* of other possible alternatives : (*i*) the adoption of gold exchange standard, and (*ii*) the adoption of a gold standard proper with gold currency All these alternatives were rejected.[1] They recommended a "gold standard without gold currency" or the "Gold Bullion Standard" as it was called. Thus wrote the Commission :

"It is possible to have a true gold standard under which the currency is based on gold both in reality and in a manner that is conspicuously visible, without putting gold into circulation. .... The essence of the proposal .. is that the ordinary medium of circulation in India should remain as at present the currency note

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1. The grounds on which these systems were rejected are given below.

(a) Sterling Exchange Standard : Even if perfected by amalgamation of Gold Standard and Paper Currency Reserves and by imposing statutory obligation on the currency authority to sell rupees and sterling when required without limit at the upper and the lower specie points respectively, the Commission held that this system would still have serious defects, viz., rupee will still be subject to the consequences of rise in the price of silver. rupee will follow sterling slavishly as regards its link with gold and would depreciate when sterling depreciated resulting in high prices in India. India's dependence on the currency of a single country, however stable, is disadvantageous. (Para 25)

(b) Gold Exchange Standard. This would stabilize the rupee in terms of gold but will still have serious defects ; same danger of rise in price of silver ; lack of simplicity ; mistrust, due to past experience, in the minds of the people . intangible backing for the token currency ; right of convertibility is too abstract. Backing of currency should be certain, simple and solid. (Para 29 31)

(c) Gold Standard with Gold Currency. Large absorption of gold by India will lead to substantial fall in gold price in the world and curtailment of credit with unfavourable reactions on India as one unit in the world trade system ; uncertainty of the estimate of the amount and time of gold demand ; it would result in depression if gold price of silver fell and depreciated the value of [illegible] would be harmful to India and the rest of the world ; United States with traditional silver interests will not support this policy and such support is essential for its success ; finally the scheme will involve great expense.

(Report Para 55-5?)

and the silver rupee, and that the stability of the currency in terms of gold should be secured by making the currency directly convertible into gold for all purposes, but that gold should not circulate as money. It *must* not circulate at first, and it *need* not circulate ever." (Para 54).

Thus the main fatures of this system were as follows :—

(1) The currency authority (the proposed Reserve Bank when established, in the meantime the Government) was to buy and sell gold (under statutory obligation) at certain fixed rates, in quantities not less than 400 fine ozs. (=1065 tolas). The conditions of the sale of gold were to be so fixed that normally the currency authority would not be called upon to supply gold for non-monetary purposes.

(2) Sovereigns and half-sovereigns were to cease to be legal tender ; rupees to cantinue full legal tender.

(3) Government saving certificates to be issued to people for three or five years, to be paid in rupees or gold at their option. This was to inspire confidence in the minds of the people for the new system.

(4) The existing currency notes were to continue to be convertible into rupees. the new notes though not to be legally convertible, the facilities for conversion were to continue.

(5) One-rupee notes to be issued which were to be full legal tender but not convertible into rupee coins.

(6) The Gold Standard and the Paper Currency Reserves were to be amalgamated.

Several advantage were claimed for this system :—

(*a*) It would secure stability of exchange by making the currency convertible into gold at a fixed rate.

(*b*) It was simple and certain : thus it would inspire confidence.

(*c*) It would be automatic : Currency would expand when gold was given in exchange for rupee coins and notes, and would contract when rupees and notes were given in exchange for gold.

(*d*) It would be cheap ; gold would remain in reserve and not circulate.

(*e*) Would pave the way for the introduction of gold currency at some future date when enough gold had accumulated.

On the other hand the Gold Bullion Standard was crsticized on several grounds.

(*a*) For the ordinary persons the gold backing was neither visible nor tangible. Only big bankers and bullion brokers could purchase gold of quantities of 400 ozs. (1065 tolas).

(*b*) Even these people could not normally find it worth-while[1] to get gold from the currency authority, nor was it the intention that they should.

The purchase of gold from the currency authority was to be worth-while only when it was required for making payments abroad. "As far as the ordinary holder of the rupee is concerned he would not be able to convert them into gold, when he must buy it in the bazar as at present."[2]

It was thus contended that there was no essential difference between the gold exchange system and the Gold Bullion standard of the Commission. Only the obligation to buy and sell gold for export was made statutory. The Indian opinion as before favoured a full-fledged gold standard with gold currency.[3] And this was supported by authorities like Dr. Cannan and Dr. Gregory in their evidence before the Young Commission.

14 The Case for 1s. 6d. Ratio : The greatest controversy, however, arose in connection with the ratio of exchange. The

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1. At the ratio of 1s. 6d. (gold) per rupee the gold was priced at Rs. 21-3-10. And this was the rate at which the currency authority undertook to sell gold. When the rate of exchange is 1s. 6-3/16d (upper gold point) or more the equivalent in rupees of a tola of fine gold would be less than Rs. 21-3-10. People would in such circumstances buy gold from the market where it would be cheaper than from the currency authority. "When the exchange is below the upper gold point the selling rate for gold will not be Rs. 21-3-10 but more. The Reserve Bank shall sell gold in that case for delivery at its office at Bombay at notified prices, and these prices will be fixed so as to free the Bank in normal circumstances from the task of supplying gold for non-monetary purposes." (Brij Narain ; Indian Economic Life, Past and Present).

2. Brij Narain ; Indian Economic Life, etc. p. 244.

3. Since Indian opinion always stressed the necessity of a gold currency standard for India, it would be instructive to give here the main points of the case for the system :—

(*a*) It will be automatic. Prices and exchange will be kept in equilibrium with the world by export and import of gold freely as the situation may require. (This, however, will not be the case if the people hoarded the gold thus imported.)

(*b*) It will discourage the habit of hoarding. (The Young Commission did not think so.)

(*c*) It will inspire confidence, currency backing visible and tangible.

(*d*) People want gold circulation as shown by the absorption of imported [illegible]

Commission recommended 1s. 6d. (8.47 grs. of gold) as the rate at which the rupee should be stabilized with the sterling. Sir Parshotamdas Thakurdas, a member of the Commission (and a big industrialist) in his minute of dissent (appended with the Report) proposed 1s. 4d. (the pre-war ratio) as the proper rate. Although the 1s. 6d. rate was accepted by the Government and was enforced by an Act of 1927, the ratio controversy raised its head again and again until the outbreak of the World War II. The Indian commercial and academic opinion agreed at the time of the Report with Sir Thakurdas and after 1927 demanded again and again the return to 1s. 4d. The Government, on the other hand, after accepting and enforcing the recommendation of the Commission, stubbornly stood by 1s. 6d.

The arguments given by the Commission in favour of 1s. 6d. were as under :—

(1) At 1s 6d. prices in India had already attained a substantial measure of adjustment[1] with prices in the world at large, and change would mean a difficult period of readjustment and widespread economic disturbance. (Para 176).

(2) There was justification in assuming, where exchange and price showed steadiness over a considerable period, that wages were in adjustment, unless there were any clear indications to the contrary. The statistics of foreign trade afforded no such contrary indication, but rather strengthened the assumption. (Para 192).

(3) If the prices and wages were not in adjustment with 1s. 6d. it could not be said that they were in adjustment with 1s 4d. because the latter rate had nevet been effective at any time during the previous eight years. If adjustment had taken place at all, it must be with 1s. 6d.

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1. The statistical evidence adduced by the Commission was as follows :—

(i) During eighteen months, from December 1922 to June 1924, while the rupee was worth about 1s. 3d (gold), the rupee price level ranged round a mean of about 176.

(ii) In the succeeding year, while the rupee was rising to 1s. 6d. (gold), the rupee price level fell below 160.

(iii) Since then, while the rupee has remained or been held, at about 1s. 6d (gold), the rupee price level has ranged round a mean of about 158, with a recent tendency to fall in sympathy with world prices.

The level of world gold prices, as indicated by the wholesale prices index figures of the United States and the United Kingdom, was (in spite of intermediate fluctuations) approximately the same at the begining of period (i) and at the end of period (iii).

It is natural to conclude that, during the period of change, there was a mutual adjustment of prices and exchange, and that a substantial equilibrium was attained about the middle of 19-5 and has been since maintained (Para 183

(4) In these circumstances a reversion to 1s. 4d. would produce a general rise of prices to the extent of 12½ per cent and would be hard especially upon the lower middle class consumers. It would also reduce real wages. (Para 206).

(5) The finances of the Government, Central and Provincial, would be upset (on account of the rise in the rupee burden of the Home Charges when valued at 1s 4d.) which would postpone indefinitely the abolition of provincial contributions. (Paras 207-208.)

(6) As regards contracts, they were either short-period contracts entered into when the exchange was 1s. 6d, or they were concluded at a time when the exchange was unstable and it would be impossible to do justice to both sides whatever rate was fixed. (Paras 195-196) As regards land revenue many settlements were made when the exchange was 1s. 4d. but due to great rise in prices after 1914the real burden of this charge had been lightened and thus the new ratio would not be a hardship on the agriculturists. (Para 194)

In criticism of the Commission it may be said that (*i*) the evidence regarding the adjustment of prices and wages was not conclusive because of the unreliability of the figures as confessed by the Commission themselves. (*ii*) They put too much emphasis on the effect of the 1s 4d. ratio on Government finances, admitting that this factor was not to be regarded as decisive. (*iii*) Since there was already a downward tendency shown by world prices 1s. 4d. ratio would not have led to a rise of 12½ per cent in Indian prices as alleged by the Commission. (*iv*) A period of just over one year was not enough for adjustment of prices. (*v*) The Commission minimized the effect on long-term contracts and also the losses of the agriculturists.

15 The Case for 1s. 4d: Sir P. Thakurdas in support of the 1s. 4d. ratio brought forward the following arguments :—

(1) The adjustment between the Indian and world prices was not complete, the ratio of 1s. 6d. was artificially worked up by the Government by deliberate contraction of currency. Until adjustment was complete the 1s 6d. ratio gave the foreign manufacturer an indirect bounty of 12½ per cent which would place a heavy strain on the Indian industry.

(2) A change in the ratio would mean an additional burden of 12½ per cent on the large debtor class who were mainly agriculturists. The debt being of long standing it was natural to assume that it was contracted when the ratio was 1s. 4d.

(3) The adverse effects on Government finances of going back to 1s. 4d. was exaggerated.

(4) The adverse effect of 1s. 4d. on a small class of the poorly paid literates (21%) should be allowed less weight than the effect upon the rest of the 79 per cent of the population. As regards labour the existing wages were high enough to cover the possible rise in their cost of living under 1s. 4d. Moreover at the lower rate they would benefit on account of the continuity of employment which industrial prosperity would bring.

(5) The 1s. 4d. was the pre-war ratio which had heen disturbed for a time. Other countries were adopting pre-war ratios. If disturbance had to come in any case, the old ratio should be preferred.

In criticism of the above position it may be said that it was not established that substantial contraction of the currency had taken place. If it had, then prices must have fallen and adjustment, contended by the Commission, must have taken place. (*ii*) It was objected that the 1s. 6d. ratio would increase the burden of rural debt by lowering prices. But this should have been counter-balanced by the advantages of lower costs and cheaper implements which the higher ratio would bring.

16. Conclusion as regards the Ratio : On the whol, however, it may be said that in 1926 it was much easier to fix the rate at 1s. 6d. than at 1s. 4d. 1s. 6d. was the rate in fact for some time and the fixing of a lower rate would have resulted in excessive economic disturbances. Whatever the method by which the 1s. 6d. was reached once the rate had become stabilized at that point it would have been unwise to disturb it. As regards the policy of the Government in bringing about the 1s. 6d. rate by contraction of currency that cannot be defended. The exchange value of the rupee rose to 16d. gold in September 1924 when the Legislative Assembly asked the Government to stabilize it at that rate. The Government rightly refused to do so because at that time excepting Germany no other important country had yet stabilized its exchanges. But the Government should have allowed the Exchange. to remain at 1s. 4d. instead of artificially pushing it up to 1s. 6d. Had this been done there would have been no fall of the general index number of prices in India. And consequently there would have been no disturbance to the internal economic stability that was being painfully attained since 1921. The real fact was that the Indian authorities were following the British Government which was trying to raise the Dollar-Sterling rate to bring it up to the pre-war parity by deflationary methods. Keeping exchange at 1s. 4d., while sterling was appreciating in terms of the dollar, would not have injured British export trade with India, because the disadvantage of ex-

change would have been counter-balanced by the advantage gained through lower prices of British goods[1].

17. The Act of 1927: The scheme for establishing the Central Bank was rejected by the Assembly in 1927, but they approved the establishment of the Gold Bullion Standard by passing Act No. IV of 1927. This act fixed the gold value of the rupee at 8.47512 grains for one rupee (1s. 6d. gold) and imposed a legal obligation on the Government to buy gold at Rs. 21-3-10 per tola in the form of bars cotaining not less than 40 tolas and to sell legal tender currency, gold for delivery at the Bombay mint, or at the opinion of the Government sterling in London in amounts of not less than 400 ozs. (1,065 tolas). The selling rate for sterling was notified by the Government as 1s. 5-49/64 per rupee for meeting these obligations. Since the Government could exercise the option of giving sterling rather than gold, the system could be called Sterling Exchange Standard[2] as much as gold Bullion Standard. Under the Act of 1927 sovereigns and half-sovereigns ceased to be legal tender though they could be received at all the currency offices at their bullion value at Rs. 13-5-4 per sovereign,

18. The Sterling Exchange Standard: The Gold Bullion Standard was superior to the pre-war Gold Exchange Standard because under it the Government had a statutory obligation to buy gold and sell gold or sterling. But it still had some of the defects of the old system which the Young Commission had pointed out, *viz*, the conversion of one token currency (the note) into another (the rupee coin), the duplication of reserves and the separation of currency from credit control. The last two defects had to wait until the establishment of the Reserve Bank in 1935.

The new system, however, did not get much chance to show its success. On September 21, 1931, Great Britain was forced off the gold standard due to drain on its gold resources caused by withdrawals of foreign balance. This development had important reactions on the Indian currency and exchange system. Under

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1. For further details see *Economic Problems of Modern India*, Vol. II. pp. 228—231.

2. "But it is fair to point out," says Dr. Jain, "that so long as the sterling did not go off gold parity, the sterling exchange standard was as good or as bad as the gold exchange standard. Further, if the Government chose to exercise the further option, open to it, of offering gold in exchange for rupee, India would have had in point of fact, if not in law, a gold standard. Thus the standard of 1927, though a sterling exchange standard, was capable of becoming gold standard, and certainly indicated that gold standard was the ideal of the Government. (*Indian Monetary Problems* p. 35.)

the act of 1927, the Government had bought gold and sold sterling at the lower gold point until the 19th September. When the announcement of Britain having gone off the gold standard came, the Governor-General on the 21st promulgated an Ordinance suspending Section 5 of the Currency Act of 1927, the one dealing with the purchase and sale of gold and sterling. On the same day the Secretary of State informed a sub-committee of the Round Table Conference in London that it had been decided to maintain the rupee at 1s. 6d. sterling. On the 24th of September yet another Ordinance was promulgated (Gold and Sterling Sales Regulation Ordinance) which repealed the previous one, thus restoring the Currency Act of 1927, but authorizing the Government to sell gold or sterling for genuine trade requirements only and for reasonable personal or domestic purposes. The Imperial Bank was authorized to allocate exchange for the defined purposes. The selling price was fixed at ls 5-49/64 d. sterling as before. The rupee was thus linked to sterling inspite of resentment on the part of Indian opinion. One consequence of this link was that the rupee began to depreciate along with the sterling in terms of gold and currencies of countries still on gold, e.g, America and France. This resulted in the rise in the rupee price of gold and that metal began to flow out of the country.[1] The Government took no steps to stop this outflow.

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1. Economists are not agreed as to the cause of the outflow of gold from India. The generally held popular opinion is that the outflow of gold was due to the rise in its price in terms of rupes when the rupee (along with the sterling) depreciated in terms of gold after September 1931. But a mere rise in price of gold would not have caused an outflow of gold if this rise was exactly counterbalanced by the depreciation of the rupee in the exchange market. It is held by some, therefore, that it was the external undervaluation of the rupee that made it worth while to export gold which meant that the rupee price in India rose to a lesser degree than the depreciation in exchange. Dr. Dey, however, is of opinion that the explantation, though correct in a narrow technical sense, is not adequate, because if undervaluation of the rupee had been the main cause, gold exports would have increased as years advanced instead of decreasing, since India showed a progressive depreciation of the rupee in terms of sterling. Dr. Dey explains the export of gold as follows : "There was acute economic distress among the peasants and the zamindars due to disastrous fall of agricultural prices, which led to their savings in the form of gold hoards being drawn upon on a large scale. But (a) due to the ignorance of the villagers about the world price of gold, (*b*) pressure of intensive propaganda on the part of bullion dealers in the up-country centres causing quick dishoarding, and (c) distress sales, the internal price of gold at which it was bought by the bullion dealers was low as compared with the world price. Consequently, the export of gold became highly profitable for the bullion dealers. On the other hand, as economic conditions gradually improved due to the rise in prices and increase in exports, the distress was mitigated, dishoarding of gold declined, the disparity between internal and external price of gold became less and less, and gold exports began to diminish, even though the depreciation of the rupee in terms

The policy of the Government in this connection was criticized on three grounds: (*i*) Linking the rupee with sterling instead of gold. (*ii*) Still keeping to the 1s. 6d ratio.[1] (*iii*) Taking no steps to stem the outflow of gold. These points demand consideration.

19. The Sterling Link: The linking of the rupee with the sterling was criticized on various grounds: Firstly, that the rupee was thus made to share the fluctuations of the sterling, the latter reflecting the conditions in Britain and not in India. Secondly, though India's export trade with the gold standard countries would be encouraged, on account of the depreciation of the rupee in terms of gold, it would discourage Indian imports from these countries, while England would enjoy a sort of an Imperial Preference in the Indian market. Thirdly, that the sterling link would bring India back to the gold standard when Britain decided to bring sterling back to gold, irrespective of the economic conditions in India. Finally, that the rise in the rupee price of gold would lead to gold exports from India, as it actually happened.

The Government on the other hand justified the sterling link and supported their policy by the following arguments:—

(i) It was better from the point of view of stability to link the rupee with sterling than to let it drift, (ii) India had at the time £32,000,000 sterling obligations and a sterling loan of £15,000,000 was maturing early in 1932. If the rupee was not linked with the sterling the difficulties of raising funds for these payments would have been insuperable. (iii) Being a debtor country, India could not afford to risk the rupee being left alone. (iv) A considerable proportion of India's foreign trade was with England or countries on sterling. It was wise, therefore, to secure a stable basis at least for this trade. (v) Depreciation of the rupee in relation to gold would give a welcome stimulus to India's export trade with gold standard countries.

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of sterling and gold remained great or kept on increasing...Had a rise in Indian prices of gold and commodities" he [illegible] a proper d[illegible] checked," a[illegible] ing largely [illegible] cit. pp. 23, [illegible]8.

1. The preamble of the Reserve Bank Act makes the position clear [illegible] respect. It lays down that the Sterling Exchange Standard is only a [illegible] arrangement. When normal monetary conditions are restored [illegible] the Reserve Bank will put forward a scheme of a permanent monetary [illegible] India.

If the sterling link was not adopted there were two other alternatives open to the Government, (a) to adopt the gold standard, (b) to keep on an independent standard. India could not have maintained the gold standard for long. Only a country like America with an abnormally large gold reserves could do it. Within a few years like the gold bloc countries (*e.g.*, France) India would have been forced off the gold. On the other hand, it is doubtful if India would have succeeded in managing an independent standard in view of her position as a debtor country with large foreign obligations, her export trade exposed to various restrictions in other countries and her lack of a proper Central Bank. In a period of chaotic currency conditions, therefore, maintaining the sterling link was perhaps the lesser evil especially when a substantial portion of India's trade was with the sterling bloc.

20. **Gold Exports**: Between September 1931, when England left the gold standard and January 1940, India exported gold to the value of Rs. 351.4 crores. The net imports of gold into India from 1910-11 to 1930-31 were Rs. 457-86 crores. Thus in about eight years India lost four-fifths of the gold that she had imported in 21 years. The Indian opinion urged the Government, when the gold exports began, to take measures to stop this outflow of the precious metal. The Government did nothing of the kind and supported their inaction on the following grounds :—

(i) Gold exports were a normal feature of a country's trade and there was nothing abnormal about it.

(ii) Gold exports had improved the credit of the Government, enabled it to stabilize exchange by purchase of sterling at favourable prices, and made it possible for her to pay off £15 million of her sterling debt and to reduce their floating debt in India by creating fresh currency required to pay for the gold.

(iii) Gold exports (by keeping up the price of gold) had stengthened India's public reserves, the market value of which increased by five crores of rupees.

(iv) By sale of gold the agriculturists were able to live on their reserves through difficult times, making huge profits into the bargain.

(v) Gold exports stimulated international trade by enabling India to buy more of foreign goods thus increasing the purchasing power of her potential customers.

On the other hand, the critics of the Government alleged that, (i) the exports of gold meant "the wastage of India's

gold resources, the wreckage of the indigenous banking system and a drain on the accumulated savings of generations,[1] (ii) that it had concealed the fact the rupee was overvalued at 1s 6d. by enabling the Government to maintain the ratio at that point, (*iii*) that the loss of gold had made it impossible for India to reach her goal of a gold standard, and that it would be difficult to make up this loss, (iv) that almost every other country was sitting tight on their gold resources while India was losing them, (v) finally that the exported gold was "distress gold" and people were merely living on their capital, a process which could not continue long.

It was suggested that the Government should purchase this gold either themselves or should make the Reserve Bank of India to purchase it in order to strengthen its gold reserves. Some suggested an embargo on the exports of gold and others a heavy export duty. To the suggestion of a duty on gold export the Finance Member pointed out (1936) in the Assembly that the burden would ultimately fall on the agriculturist seller of gold through the fall in its price. As regards the buying of gold in unlimited quantity by the Reserve Bank of India on behalf of the Government, it was pointed out that it would mean speculation in gold, as the buying rate would have to be fixed with reference to the fluctuating dollar-sterling cross-rate. "It is true," wrote Dr. Dey, "that both the U.S.A. and the United Kingdom have accumulated large gold reserves at high costs during the depression. But all students of recent monetary conditions know that it has now (1938) become a grave problem for these two countries to decide what should be done with these costly gold stocks."[2] Britain, however, had to disburse her gold resources to finance the war. If the Reserve Bank had taken the risk of purchasing gold at that time it would have made enormous profits when later the price of that metal had risen so high.[3] For this reason and others given in the previous paragraph we do not agree with Dr. Dey when he wrote that "the policy that has been actually followed by the Government of India with regard to gold has been the wisest under the circumstances of the case."[4]

1. Jather and Beri, Indian Economics, Vol. II, p. 371.

2. Economic Problems of Modern India, op. cit. p. 240.

3. The price of gold in August 1931 was Rs 21-13-3 per tola, by December 1931 was Rs. 29-1-0, by March 1940 it was Rs. 36-13-3' by September 1937 it was about Rs 37, by December 1943 it reached Rs. 42 per tola, in November 1944 it was Rs. 65 per tola, in Nov. 1945 it was Rs. 81 per tola, and in (Octobe 1945) Rs. 114 per tola.

4 Dey, op. cit. p. 241.

21. **The Case for Devaluation** : From the time the Government enforced the 1s. 6d. ratio under the Currency Act, 1927, vocal public opinion in India continued pressing for its revision.[1] In fact the case for revision was very strong indeed until the World War II broke out and changed the whole situation. The case for devaluation of the rupee, as it was put from time to time between 1929-1939, may be summarised as follows :

(*i*) The rupee was all along overvalued at the rate of 1s. 6d. and the Government was able to maintain the rate by drastic deflationary measures : (*a*) by contracting currency—between

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1. When the depression appeared after the autumn of 1929 the agitation for revision of the ratio increased, especially when it was found that the Government was finding it difficult to maintain the rate at 1s. 6d. on account of the great fall in the export surplus. It was again urged, at the time of the linking of the rupee to sterling at the old rate, that the case for revision was strong The question was again raised at the time when the matter of the proposed Reserve Bank's exchange obligations was being discussed by the London Committee on the Reserve Bank, then by the joint Select Committee (1933) and again when the Reserve Bank Bill came before the Assembly. The ratio clauses (40 and 41) finally embodied in the Act gave effect to the recommendation of the London Committee that the existing ratio should be preserved, but that the whole question of the monetary standard suited to India should be reviewed when the international situation had clarified itself and become sufficiently stable to make it possible to frame more permanent provisions This arrangement. however, did not satisfy Indian opinion. In August 1935 Mr. Manu Subedar, (President, Indian Merchants' Chamber and Bureau, Bombay) in welcoming Sir James Grigg (then Finance Member), suggested to review the ratio with a view to giving relief to the cultivator. To this the latter replied that he would be "no party to any monkeying with the present ratio", that the change would not help the agriculturist and might lead to worsening of his position.

The controversy flared up again early in October 1936, when the franc and other currencies of the gold bloc were devaluated. The Government was urged to devaluate the rupee, which would raise prices of primary products, revive export trade and obviate export of gold. The Government spokesmen argued that devaluation at that juncture would constitute a breach of the Tripartite Monetary Agreement (of 1936) signed by U.K., U.S.A., and France Moreover, they said that the sterling link had already devaluated the rupee by about 40 per cent. in relation to gold. Further. that devaluation might provoke retaliation from competitor countries.

In 1938 again there was agitation for devaluation on account of weakening of exchange in June of that year. The Indian Congress Working Committee took up the question. The Government in a 'communique' issued on June 6, 1938, declared their satisfaction with the existing ratio. In September 1938 an unsuccessful attempt was made by some unofficial members of the Central Legislature to secure the appointment of a committee to report on the ratio question. The balance of trade and exchange improved during he succeeding months and on December 16, 1938, the Government issued another press communique', repeating their decision to maintain exchange at 1s. 6d. as before. Exchange remained steady on the whole during 1939 up to the outbreak of the war, which entirely changed the situation.

1926-27 to 1930-31 currency was contracted to the extent of 102½ crores of rupees ; (*b*) by raising the lending rate to the Imperial Bank of emergency currency under the Act of 1923 ; (*c*) by the sale of sterling and depleting the sterling resources of the Reserve Bank (Issue Department). The result of this deflationary policy was disatrous for Indian agriculture and industry especially the former during the Depression years from 1929 onwards.

(*ii*) That the rupee was overvalued at 1s. 6d. was indicated by the various symptoms and criteria of overvaluation accepted by economic theory and practice, such as (*a*) the sagging prices, (*b*) industrial stagnation, (*c*) unfavourable terms of trade, (*d*) almost disappearance of export surplus.

(*a*) Between 1928 and 1933 Indian prices fell to a larger extent (40 per cent) as compared with British prices (36.4 per cent.), And by 1936 while English prices recovered by 16.3 per cent., Indian prices only recovered by 5.7 per cent. Thus Indian prices fell more and rose less during the period.

(*b*) Industrial stagnation was shown by figures of aggregate profits of certain industries. These profits fell from a total of Rs. 10.9 crores in 1928 to Rs. 2.6 crores in 1931 and rose slowly only to Rs, 5 crores in 1935.

(*c*) The batter terms of trade were also unfavourable to India during this period. This was shown by the fact that the prices of her exports fell to a greater extent than those of her imports. Between 1927-28 and 1933-34 while the index number of export prices fell by 46.5 per cent., that of import prices declined only to the extent of 34.8 per cent.

(d) The merchandise export surplus also showed serious decline. The net export of private merchandise (excluding Government stores) were as follows during the depression years :

Years			Rs. Crores	Year			Rs. Crores
1930-31	...	...	61.0	1935-36	...	...	29·8
1931-32	...	...	34·0	1936-37	...	...	77·1
1932-33	...	...	3.5	1937-38	...	...	15·4
1933-34	...	...	34.4	1938-39	...	...	16·3
1934-35	...	...	23.4	1939-40	...	...	47·8

(*iii*) In other countries, especially agricultural countries, the situation was met by their Governments by depreciating their currencies. The depreciation of the rupee in terms of gold that had occurred by linking the rupee with the sterling in 1931 was obviously not enough as was indicated by the tests given above. India was at a disadvantage with respect to her competitors the values of whose currencies had been considerably reduced. This was indicated by the following :—

Country	Value of currency in 1933 as percentage of their value in 1913.
Belgium	22.6
France	31.5
Greece	4.5
Italy	42.0
Portugal	4.5
Spain	68.0
Japan	50.0
U.S.A.	90 0
Australia	75.0
New Zealand	75.0

(*iv*) It was further urged that the real state of affairs was being obscured by the export of gold which was enabling the Government to maintain the rate at 1s. 6d. But gold export could not go on indefinitely. "Gold exports are at best only postponing the evil," wrote Dr. L. C. Jain, "when they cease, and it should not be very long before they cease, a situation of the gravest character will arise if things are allowed to drift in the mere expectation of international action leading to world prosperity.[1]

(*v*) Some people urged that the issue was not between the 1s. 6d. and the 1s. 4d. ratio. The issue was much wider. It involved wider aspects of policy. The anxiety of the Government all along the currency history of India since 1893 had been to ensure stability of exchange at one level or the other. It was urged that under the modern conditions of national economies the emphasis on exchange stability at the expense of the stability of economic life within the country is a wrong policy. A policy of flexible exchange is preferable, since by this method the relationship between costs and prices can be kept in equilibrium to ensure profitable working of industry and agriculture. Such an exchange ratio is the really *natural* ratio for a country. England sought this natural level by depreciating the sterling in 1931. But the natural level of exchange for England is not necessarily the natural level for India.[2]

But the Government refused to have any 'monkeying' with the exchange as the Finance Member Sir James Grigg put it. Then came the war and the whole outlook changed.

22. **The Reserve Bank as Currency Authority.** In the meantime from April 1 1935 the control of currency was passed from the hands of the Government to the new central bank—

1. L. C. Jain : Monetary Problems of India, p. 15.
2. For an excellent exposition of this thesis read article by B, N. Gangult in Economic Problems of India, pp, 223-324. Also read his "Whither Rupee"?

the Reserve Bank of India—to whom were transferred the Paper Currency and the Gold Standard Reserves This removed two defects of the Indian currency system pointed out by the Hilton Young Commission, *viz*, duplication of reserves and division of responsibility for the control of currency and credit. The evolution of the paper currency system will be noted presently and the system of credit will be studied later in this chapter. Here something may be said about the role of the Reserve Bank in the maintenance of the Sterling Exchange Standard.

The Reserve Bank was required to maintain the 1s. 6d. sterling ratio by buying and selling sterling at specified rates. Clause 40 of the Reserve Bank Act required the Bank to sell sterling to any person who made a demand in that behalf at its office in Bombay, Calcutta, Delhi, Madras or Rangoon and paid the purchase price in legal tender currency, for immediate delivery in London at a rate not below 1s. 5-49/64d for a rupee. This provision was intended to prevent the rupee from falling below 1s. 5-49/54d. (this was obtained by deducting from 1s. 6d. the cost of buying down in London this amount). Clause 41 made it necessary for the Bank to buy sterling from any person who made an offer in that behalf at its office in Bombay, Calcutta, Delhi, Madras or, Rangoon, for immediate delivery in London at a rate not higher than 1s. 6-3/16d. for a rupee. (This was found by adding to 1s. 6d. the cost of transporting this amount from London to Bombay). These two points corresponded to the lower and upper specie points under the Gold Standard.

Thus the Reserve Bank Act legalized the existing ratio. The preamble to the Act, however, incorporated the recommendation of the London Committee on the Reserve Bank Legisliation, that the question of the monetary standard best suited to India should be considered when the international monetary situation had become sufficiency clear to make it possible to frame permanent measures. When such a contingency arose Clause 55 of the Act required the Bank to report its views to the Governor-General-in Council as regards the suitable permanent basis for the Indian monetary system, and to frame measures for the future monetary standard of India.

23. **Sterling Link Broken:** At the end of 1946 India became a member of the International Monetary Fund. As a consequence in the Budget Session of 1947 the Reserve Bank Act was amended. The amendment replaced Sections 40 and 41 (as explained above) and obliged the Reserve Bank to sell and buy foreign exchange at such rates of exchange as may from time to

time be determined by the Government of India by general or special order. Section 179 of the Bank Act was also amended so as to enable the Reserve Bank to buy and sell securities issued by the Government of any country outside India which was a member of the I. M. F. The effect of all this was that whereas previously the rate of exchange of the rupee was fixed by law in terms of sterling it was now left to the Government of India to fix it in terms of foreign currencies subject to such conditions as were consistent with the obligations under the rules of the I. M. F.

24. **Evolution of the Paper Currency System:**—Pre-1914. So far we have traced the history of Indian currency system primarily from the point of view of the establishment and maintenance of the standard of value, whether be it silver, gold or sterling. We have made only relevant references to the main currency units: the rupee coin and the notes which constituted the media of payments. The rupeewe have seen was full-value coin up to 1893 after which it became a token coin. After that date paper note was assuming greater and printed on silver. But it was no more than a notethe greater importance with the lapse of time. There are certain problems connected with the management and methods of note issue which deserve our attention in greater detail. We shall deal with them historically.

Notes were practically unknown in India until the begining of the 19th century when the Bank of Bengal was founded in 1806 and was given the privilege of issuing notes. Later the other two presidency banks, the Bank of Bombay (1840) and the Bank of Madras (1843) were established and enjoyed the same privilege. These were private institutions but the Government had subscribed to their shares and had representation on their management. Each bank could issue notes up to a fixed minimum and had to keep a reserve of 33-1/3 (later 25) per cent, in the form of specie. These notes were not legal tender in the country and were only popular in the presidency towns. The amount of note-issue consequently was very small.

In 1861 by an Act (No: XIX of that year) the Government assumed the monopoly of note-issue in India. A Paper Currency Department was constituted for this purpose. The country was divided into three circles of issue, *viz.*, Calcutta, Madras and Bombay. The notes issued by each circle were legal tender only in that circle. Later, the number of circles was increased to seven with the addition of four more circles, *viz*, Lahore Karachi, Cawnpore and Rangoon. Notes were issued of the denominations of Rs. 10, Rs, 50, Rs. 100, Rs. 500, Rs. 1,000, Rs. 10,000.

The currency principle of note-issue as embodied in the British Charter Act of 1844 was followed. The fiduciary portion of the Paper Currency Reserve was fixed at Rs. 4 crores. Over and above this limit metallic reserve (silver coin and bullion) of equal value had to be kept.

The above arrangement was excellent from the point of view of the security of the issue, but it was neither convenient nor did it secure elasticity for the Paper Currency. The inconvenience was caused on account of the narrow area over which the note was legal tender and convertible. This defect was removed when gradually the notes of one denomination after another were universalized. The five-rupee note (issued in 1891) was universalized in 1903, Rs 10 and Rs. 50 notes in 1910, Rs. 100 note in 1911 and Rs. 500 and 1,000 subsequently in 1931-32.

Elasticity of a currency implies its capacity to expand and contract according to the demands of trade. The Indian system was inelastic because beyond the fiduciary limit of Rs. 4 crores paper currency could be expanded only against metallic reserve of equal value. Some elasticity was obtained, however, during the period under consideration (*i*) by raising the fiduciary limit from time to time by legislation until it stood at Rs. 14 crores in 1914; (*ii*) by closing in 1893 the mints against the free coinage of rupees thus making the rupee a token coin. This required less silver to be kept in the reserve than previously (a ten-rupee note could be issued by keeping silver worth Rs. 6 only). But this was not enough.

The paper currency reserve originally consisted of silver coin and bullion as regards the metallic portion, and the Government of India rupee securities as regards the fiduciary portion. In 1898 the Gold Note Act was passed which authorized the Government to hold any part of the metallic portion of the reserve in the form of gold coin. An Act in 1900 authorised the holding of a part of this gold in London. An Act of 1905 allowed the Government to hold it either in India or in London, in gold coin or bullion, in silver coin or bullion, provided all coined rupees were kept in India. As regards the fiduciary portion an Act of 1905 authorized that up to two crores of rupees it may be kept in sterling securities.

As the fiduciary portion was only raised infrequently, with the expansion of circulation, the metallic reserve increased and formed sometimes as much as 80 to 85 per cent of the total

This was encouraged because the liquid portion of the reserve began to be used to support exchange. At the end of the period under discussion, therefore, three criticisms were commonly made against the paper currency reserve :

(*a*) that it had unduly large metallic portion :

(*b*) that fiduciary portion could not be increased without legislation : and

(*c*) that a part of it was invested in sterling securities in London, instead of being kept in India.

The first two characteristics made the system inelastic. In justification of keeping a part of the reserve in London it was said that it helped in maintaining exchange and saved any losses arising out of its depreciation in the case of a crisis in India.

Other defects of the system at that time were :—

(*i*) the function of note issue and that of banking were in the hands of different authorities.

(*ii*) The Government had no banker. The balances of the Government were kept in their own treasuries under what was called the " Reserve Treasury System ".[1] This locked up funds and led to financial stringency in the busy season.

(*iii*) The internal currency was inelastic. The only way it could be expanded in the busy season was by the purchase of Council Bills or import of sovereigns.

Elasticity in other countries is usually obtained by the use of deposits and cheques and by the issue of paper currency against commercial bills of exchange during the busy season, etc. The habit of banking was not much developed in India and there was scarcity of bills on account of the trade being usually financed by the method of cash credit instead of bills. Moreover, Government funds in other ucontries are placed with a central bank and are thus available to meet demands of trade. In India there was no such bank.

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1. Between 1863 and 1876 Government balances at headquarters were kept with the Presidency Banks. But since Government experienced difficulties in getting their funds back, they established in 1876 their own treasuries called the Reserve Treasuries at Bombay, Calcutta and Madras Henceforth only small amounts were kept for day-to-day requirements in district and taluka treasuries. Since the heavy revenue payments synchronized with the active business season, funds were locked in the treasuries at the very time when the money market required them. The system was abolished in 1921 when the Government balances were passed on to the Imperial Bank established that year.

25. Indian Paper Currency and the War, 1914-1919.—During this period two expert bodies—the Chamberlain Commission and the Babington Smith Committee--investigated the Indian currency system and made recommendations, among others, for the improvement of the paper currency system. Between these two investigations the Indian system was affected by the Great War of 1914-18.

The Chamberlain Commission with a view to introducing further measures of elasticity recommended that the fiduciary portion of the reserve should be increased from Rs. 14 crores to Rs. 20 crores. After this it should be fixed at a figure obtained as follows :—

Notes held in Reserve Treasuries plus 1/3 of the net circulation (Gross circulation—notes held in Reserve Treasuries).

Other recommendations of this Commission with respect to paper currency were :—

(*i*) Government should take power to make temporary investments in India and in London from the fiduciary portion of the Reserve as an alternative to investment in permanent securities. In India loans should be made to Presidency Banks and in London the Secretary of State should be empowered to lend the proceeds realized from the sale of Council Drafts sold against currency reserve in the busy season, provided the total cash portion of the Reserve should not fall below 2/3 of the net circulation. (*ii*) The use of notes should be encouraged by all legitimate means. (*iii*) Facilities for encashment of notes should be extended ; and (*iv*) the Rs. 500 notes should be universalized.

The idea of the Commission was to make the note-issue both elastic and popular. Temporary lending in India would enable the Government to increase currency during the busy season and earn interest on it. In England it would enable the *Secretary of State to sell Council Drafts against the paper* currency reserve in anticipation of silver purchases or any other purpose without the loss of interest.

The outbreak of the war, however, prevented any action being taken on these recommendations at least for the time being.

The war, during its first year, put the paper currency system under a great strain. There was a rush for conversion of notes into gold. In five days from the 1st to the 4th of August the Government gave out £1,500,000 worth of gold but then refused to issue any more gold to the public. Rs. 10 crores worth of notes were returned during the 1st [illegible] of the

war. Confidence was, however, quickly restored and from 1915 onwards there was great demand for paper currency. Because of the scarcity of the precious metals notes had to be issued against securities and the fiduciary limit was raised from Rs. 20 crores in 1914 to Rs. 120 crores in 1919. Consequently the proportion of the metal in the reserve fell from 78·9 per cent. in 1914 to 35 per cent. in 1919. New notes[1] of Re. 1 and Rs. 2½ denominations were issued to meet the scarcity of rupee coins. Extralegal facilities for conversion were discontinued. Demand for coins was also met by the purchase of 200 million ozs. of silver from America. As the rate of interest increased the value of the securities in the Paper Currency Reserve declined. In order to replace them by more suitable securities, it was decided to create a Paper Currency Depreciation Fund out of the interest received on paper currency investments.

When the war ended, the Babington Smith Committee of 1919 examined the Indian currency system. The Committee aimed at imparting elasticity to the rupee currency and was also anxious to see that the note-issue was backed by adequate metallic reserve. To these ends the Committee recommended: (*i*) The metallic portion of the reserve should be at least 40 per cent of the gross circulation, and the gold in the reserve should be revalued at 2s to a rupee (instead of 16d. as before the war). (*ii*) The fiduciary limit should continue to be Rs. 120 crores, of which not more than Rs. 20 crores should be securities of the Government of India. (*iii*) Over and above the normal fiduciary issue, provision should be made for the issue of additional currency in the busy season up to Rs. 5 crores, in the form of loans to the Presidency Banks on the security of Export Bills. (*iv*) The silver and gold in the Paper Currency Reserve should be held in India except the amount required for the purchase of silver in London. (*v*) War-time restrictions on encashment of notes should be removed as soon as circumstances permit; and the Government should have the option of redeeming their notes in full legal tender gold or silver coins.

26. Paper Currency from 1919 to 1934.—This period saw the emergence of the Imperial Bank by the amalgamation of the three Presidency Banks (1921) which took up some of the functions of the Central Bank, and the proposal by the Hilton Young Commission for the establishment of the Reserve Bank as the note-issuing authority and legislation regarding the constitution of the Paper Currency Reserve.

1. These notes were cancelled in January, 1926.

In September, 1919, a temporary amendment had been made of the Paper Currency Act, according to which Rs. 100 crores out of the fiduciary portion of the Paper Currency Reserve were to be held in London in British Treasury Bills. In March, 1920 a temporary Act was passed for six months which allowed the fiduciary limit to remain at Rs. 120 crores as before but abolished the restrictions on the location of the investments and their sterling or rupee character. In October, 1920 the Indian Paper Currency Act was passed replacing the temporary Act of March, 1920. This Act was subsequently replaced by a consolidating Act in 1923, which, in its turn, was amended in 1923 and 1925.

The final provisions of this legislation were as follows :—

(a) *Permanent Provisions.*

(i) The metallic portion of the Paper Currency Reserve was to be not less than 50 per cent. of the whole.

(*ii*) The Government of India securities in the Reserve were to be Rs. 20 crores in amount, and of these the created (*ad hoc*) securities were not to exceed Rs. 12 crores.

(*iii*) The Governor-General-in-Council was empowered by the original Act to issue currency notes up to Rs. 5 crores against inland bills of exchange maturing within 90 days. This additional issue of currency could be made on payment to the Government by the Imperial Bank of India interest at a rate not lower than 8 per cent. The extra note-issue was raised from Rs. 5 crores to Rs 12 crores by the amendment of 1923 ; and in 1924 it was laid down that of these Rs. 4 crores were to be issued when the Imperial Bank rate rose to 6 per cent. and the remaining 8 crores when it rose to 8 per cent.

(b) *Transitory Provisions.*

Owing to the difficulty caused by reducing the Reserve on the basis of Rs. 10 to the sovereign instead of Rs. 15, certain transitory provisions became necessary, pending the final attainment of the permanent provisions. This revaluation made the metallic portion less than 50 per cent. It was, therefore, provided that the fiduciary portion be fixed at Rs. 85 crores (raised to Rs 100 crores in 1925) for the time being. It was also provided that the Government should be authorised to create securities of their own (*ad hoc* securities) and issue them to the Controller of Currency to fill in the gap caused by revaluation of the gold. Such securities were to be gradually reduced to Rs. 12 crores, the amount permissible under the permanent provisions.

This legislation followed closely the recommendations of the Smith Committee except that the metallic portion of the reserve was fixed at 50 per cent. instead of 40 per cent. as recommended by the Committee.

The Hilton Young Commission of 1926 recommended the establishment of a Reserve Bank to which the sole right of note-issue was to be transferred. The Government notes were to cease to be legal tender except at Government Treasuries, while the notes of the Bank were to be full legal tender and guaranteed by the Government. Legal obligations to convert paper currency into silver coin were to be withdrawn. The Paper Currency and Gold Standard Reserves were to be amalgamated and the Proportional Reserve Principle of note-issue was to be followed. The proportion of the silver in the reserve was to be reduced during the next ten years.

The establishment of the Reserve Bank was delayed until 1935, but a Currency Act was passed in 1927 (Act IV of that year). On April 1, when this Act became effective the sterling securities held in the Paper Currency Reserve were revalued at Rs. $13\frac{1}{3}$ to the sovereign as provided by the Act. This resulted in an increase in value of the securities amounting to Rs. 930 lakhs. To this amount the Indian Treasury Bills were cancelled. The permanent provisions of the Act of 1923, however, never became effective because of the difficulties of replacing rupee securities on account of unsatisfactory financial position which diverted to revenue the resources[1] from which such securities had to be purchased.

27. The Reserve Bank as the Issuing Authority.— The Reserve Bank Act which was passed in 1934, gave the sole right of note-issue to the Reserve Bank of India which started its operations from the 1st of April, 1935. The note-issue function of the Bank were to be performed by its Issue Department.

The Gold Standard and the Paper Currency Reserve were amalgamated and the entire gold stock was transferred to the Bank, which the Bank kept in its Issue Department.

1. These sources were to be as follows :—
   (a) Interest derived from securities in the Paper Currency Reserve.
   (b) Profits on the fresh coinage of rupees.
   (c) Interest on the Gold Standard Reserve when it exceeded £40 million which it did on September 30, 1921.
   (d) Interest on commercial bills of exchange deposited with Controller of Currency.

The assets of the Issue Department were to toconsist of gold coin, gold bullion, sterling securities, rupee coins and rupee securities. Of the total assets not less than 40 per cent. had under the law to consist of gold coin, gold bullion or sterling securities, provided that the amount of gold coin and gold bullion was not at any time less than Rs 40 crores in value. With the previous sanction of the Central Government, however, the Bank could hold gold coin, gold bullion or sterling securities of less than 40 per cent. Of the assets for limited periods provided that it paid a specified tax on the deficiency. In actual practice, however, the bank has so far maintained a much higher percentage of gold and sterling securities against its total liabilities in the Issue Department. The sterling assets which the Bank could hold in the Issue Department were limited to (*a*) balances held with the Back of England, (*b*) bills of exchange bearing two or more good signatures and drawn on and payable at any place in the United Kingdom and having a maturity not exceeding 90 days, and (*c*) Government securities of the United Kingdom maturing within five years.

The Reserve Bank issued its own notes for the 1st time in January, 1938, when notes of the denominations of Rs 5 and Rs. 10 were issued. Later in the year notes of the denominations of Rs 100 Rs 1,000 and Rs 10 000 were also issued. In the same year the Bank also issued notes for Burma for which territory it also performed Central Banking functions under agreement.

For the efficient management of note-issue the country (including Burma) was divided into seven circles of issue each to be served by a branch of the Issue Department. These branches were located at Calcutta, Cawnpore, Lahore, Bombay, Karachi, Madras, Rangoon.

To provide currency for the transactions of the Government and reasonable remittance facilities to the public the Issue Department maintained currency chests containing notes and rupee coins at all important places in British India and Burma.

27. **Expansion and Contraction of Currency.**—Under the Reserve Bank Act the Assets of the Issue Department as we have seen are kept in the form of—

(*i*) rupee coin including rupee notes,

(*ii*) gold coin and bullion.

(*iii*) rupee securities, including treasury bills ; and
(*iv*) sterling securities.

Expansion of currency can be effected by increasing any of these forms of assets and issuing notes of equal value from the Issue Department. Contraction of currency is similarly effected by withdrawing notes from circulation and reducing any of the assets. "Ordinarily in the case of expansion the Bank increases the assets of the Issue Department by transferring rupee or sterling securities or both from the Banking to the Issue Department or by creation of *ad hoc* treasury bills ; and in the case of contraction, reduces the assets by transferring securities, rupee or sterling or both from the Issue to the Banking Department, or by cancellation of *ad hoc* treasury bills held in the Issue Department."[1]

An enormous expansion of note circulation took place during the war. These notes were issued against sterling securities accumulated due to the circumstances arising out of the war. The total notes in circulation when the war broke out on the 1st of September, 1939 were Rs. 182 crores. On the 3rd of August, 1945 the figure stood at Rs. 1,133 crores, an increase of about Rs. 951 crores. The increase in sterling securities during the same period was to the value of Rs. 975 crores.

We proceed now to discuss the effects of the World War II on the Indian Currency and Exchange system.

28. World War II and Indian Currency System. The main war factors that had relevance from the point of view of Indian currency and exchange were: (*i*) The necessity of preventing the exports of capital and war materials by private individuals and non-essential imports for civilian use. The need of commandeering foreign purchasing power in the interests of war necessitated restrictions on foreign trade and exchange. (*ii*) The general shaking of confidence in response to unsatisfactory war developments or internal political agitation, led to speculative buying, hoarding of goods and coins and rush to deposit withdrawals and conversion of notes into coins. (*iii*) The expanding theatres of war and shipping difficulties and State restrictions resulted in contraction of private foreign trade. (*iv*) Purchases on behalf of His Majesty's Government and the Allies for outside war theatres led to increased export surplus for India, increased sterling balances in London and increased currency expansion in this country. (*v*) Stimulation of productive

1. Functions and Working of the Reserve Bank of India pp. 58-59.

activity for war purposes led to increased incomes of certain classes but it also led to scarcity of civilian goods at a time when foreign imports could not fill the gap. This along with currency expansion led to soaring prices. Price control measures with respect to necessities of life became imperative. (*vi*) The expanding budget of the Government led to higher taxation and increased borrowings. These had their repercussions on production, currency and exchange.

29. Exchange Rate We have seen in a previous section that during the decade before the outbreak of the war the Government found it difficult to maintain the rupee sterling rate at 1s. 6d. It was accomplished partly by contraction of currency and partly on account of the export of gold after 1931. The chief cause of the difficulty was the serious falling off in the export surplus during the period of acute agricultural depression. With the outbreak of the war the export surplus revived on account of considerable export of war materials from India purchased on behalf of His Majesty's Government. Indian exports of merchandise to foreign countries (mainly the United Kingdom and the British Empire) increased from Rs. 163 crores in 1938-39 to Rs. 203 crores in 1939-40, an increase of about Rs. 40 crores during the first war year. The imports on the other hand were kept down by means of import restrictions from May 1940 onwards. The favourable balance of trade in merchandise was only Rs 17.3 crores for the pre-war year 1938-39 and Rs. 48.8 crores for 1939-40, Rs. 48.9 crores for 1940-41, Rs. 79.9 crores for 1941-42 and Rs. 84.61 crores for 1942-43, Rs. 90.9 crores for 1943-44 and 26.1 crores for 1944-45. The Reserve Bank was consequently able to buy[1] sterling in

1. Below are given sterling purchases by the Reserve Bank along with the annual average rate at which purchases were made :—

Year			Net purchases £ millions	Average rate of purchase s.	d.
1938-39	...	...	25.45	1 5	15/16
1939-40	...	...	72.59	1 5	63/64
1940-41	...	...	57.08	1 6	
1941-42	...	.	73.31	1 6	
1942-43	...	...	91.67	1 6	
1943-44	...	...	105.31	1 6	
1944-45	...	...	91.50	1 6	

2. Special payment agreements were entered into by the Bank of England in May 1941 with the following countries : Costa Rica, Cuba, Dominican Republic, Ecuador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama excluding Canal Zone, Salvador and Venezuela.

large amounts and there was no difficulty in maintaining the rate at the statutory level of 1s. 6d. Some trouble, however, was felt in March 1941, when owing to continued difficulty of securing shipping space there was a scarcity of export bills and the exchange weakened, but the Reserve Bank was able to meet the situation by offering to sell Reverse Council Bills at 1s. 5-31/32d.

While the rupee remained, on the whole, firm in relation to sterling, it depreciated in relation to the dollar, yen and the continental currencies following the slump in the pound. With the pegging of sterling to the dollar at £=$ 4.02 the rupee-dollar exchange became steady (at about 332 per 100 dollars).

30. **Exchange Control:** Following Great Britain, the Government of India also undertook to control exchange. Under the Defence of India Ordinance of 1939 (Part XIV) the Government was authorized (*i*) to impose restrictions on purchase of foreign exchange; (*ii*) to acquire foreign exchange; (*iii*) to impose restrictions on purchases and export of securities and (*iv*) to acquire foreign securities. Accordingly the Government required that all foreign exchange transactions should be put through authorized dealers controlled by the Reserve Bank through its newly created Exchange Control Department.

For purposes of exchange control, the Empire was regarded as a single currency unit and was called the sterling area. No restrictions were put on the free transfer of funds within this area The purchase and sale of currencies outside the sterling area were subject to rigid control. The sterling area originally included all Empire countries except Canada, Newfoundland, Hong Kong and also (then Mandated territories) Egypt and Iraq. As a result of war developments the Belgian Congo, Iceland, the Faroe Islands and the Free French Territories were added to this area. In addition through special agreements, payments between certain foreign countries and the sterling area were permitted only in sterling and transfers between the accounts of these countries and other non-Empire countries were prohibited.

No remittances were allowed to any country outside the sterling area unless the remitter filled an application form stating the purpose for which the remittance was required. Remittance might be required for (*i*) payment for imports; this was allowed provided the applicant produced custom entry forms as evidence that the goods had been imported into

India, Petty private remittances, (*iii*) Travelling expenses, these were allowed up to a certain limit only, (*iv*) Other trade purposes (freight, profit, royalties), for these applicants had to submit certificates from Chartered Accountants or other suitable evidence of their being bona fide payments, and (*v*) Capital remittance, these were only permitted in exceptional circumstances and had to be referred to the Reserve Bank of India. The object of these regulations was to ensure that foreign exchange was only sold for the finance of trade and for a few other approved purposes. They were designed to prevent any flight of capital and to make speculative operations in exchange impossible.

At first banks were given considerable latitude in the sale of foreign exchange. But as the war advanced their privileges had to be curtailed. Subsequently they could not sell exchange, without prior reference to the Reserve Bank for making payments for licensed imports and a few private remittances. A rigid control on imports was instituted. No imports were allowed from outside the sterling area without a licence. These licenses were issued by the Chief Controller of Imports and the Import Trade Controllers working under the Commerce Department of the Government of India. The bulk of the exports from India to countries outside the sterling bloc was financed under bank credits. For goods which were supplied by the United States under lease-lend no transactions in foreign exchange took place. Importers in India merely paid the Government of India direct in rupees after the goods had arrived.

" The deterioration in the shipping situation after the entry of Japan into the war made the supply of shipping space an important factor in the issue of licences under the import control system which had so far been based on availability of foreign exchange and the supply of particular currencies."[1]

31 *Exports Control Scheme.* *With the development of* control it was found necessary to institute control of the proceeds of exports from India to countries outside the sterling area. The Reserve Bank, therefore, instituted an Export Control Scheme, which was at first meant for jute and rubber exported to the United States, Belgium, Holland and Switzerland only but was subsequently extended to include all commodities shipped from India to nearly all the countries in the world except those occupied by the enemy, and those adjacent to India.

1 Report of Central Board of Directors Reserve Bank of India for the year ending 30th June 1943 pp 10-11.

where the absence of banking facilities did not permit trade to be financed through the medium of banks. The objects of the export control scheme were to ensure, firstly, that the foreign exchange proceeds of exports were returned to India and not retained abroad, and secondly, that exports were financed in certain specified way so that the maximum exchange value was obtained. This system was worked through the customs and the banks by means of forms which the shipper had to complete stating the value of his shipment and his method of finance. One copy of this form was handed to the Customs who did not permit shipments to countries covered by the order without its production. The form was then forwarded to the Reserve Bank. The other copies of the form the shipper deliverd to his bankers at the time of negotiation of his bills covering the export. These were also submitted to the Reserve Bank, which checked up the forms with the original received from the Customs. All shipments could thus be accounted for.

The balances occurring to Indians (and other citizens of the Empire countries) in the United States had to be handed over to the British Government and constituted the " Empire Dollar Pool," to be utilized for purposes of war.

32 Bullion, Securities and Foreign Currency Notes: In addition to ordinary commodities, control was also exercised over the export and import of bullion, securities and currency notes. Export of gold could only be made under licence. Exports to the United Kingdom were only permitted provided the gold was consigned to authorized brokers in London. Licences for exports to U. S. A. were granted only provided the authorized dealers gave an undertaking that the dollar proceeds would be surrendered to the Reserve Bank of India. Imports of gold were licensed, but were freely permitted provided they did not involve the expenditure of any important currency especially dollars.

As regards securities, these could not be acquired from any person not resident in India, nor could they be exported without the permission of the Reserve Bank. For export of foreign securities licence was required which was only allowed if the foreign exchange proceeds were surrendered to the foreign agents of a bank in India.

Restrictions were also placed on the taking of jewellery and cash out of India. A specified minimum could be taken out without licence, but beyond that a licence had to be taken from the Exchange Control Department of the Reserve Bank.

Currency notes could not be imported from countries occupied by the enemy. This was to prevent the enemy disposing of their large holdings of notes captured in invaded countries. Severe restrictions were put on the purchase of Bank of England notes by India after the German occupation of most of Europe. When Japan occupied Burma similar restrictions were put on Burma notes. Provision, however, was made to encash notes in possession of *bona fide* evacuees from the occupied areas.

Exchange control was exercised on similar lines by all the Empire countries and there was complete collaboration in the working of these systems among the various member of the Empire.[1]

33. **Effects on currency.**—The main effects of the war on the internal media of exchange were: Rush for conversion of notes and consequent, rationing of rupees. Sacreity of coins leading to issue of one rupee and later two-rupee notes to economise silver and to prevent hoarding. The Government also issued new eight-anna pieces and later new rupee coins of smaller silver content. To reduce hoards and to prevent counterfeiting the Government withdrew Queen Victoria rupees and later Edward VII, George V and George VI standard rupees and finally the circulating media expanded enormously especially after 1941 causing inflation.

Previous to June 1940, the demand for conversion of notes into rupees was only sporadic, amounting on the average to less than a crore of rupees per week. With the collapse of France, during that month, this average increased to Rs. 4 crores per week. The demand for rupees also increased on account of increasing armament expenditure of the Government, and the greater business activity brought about by the war. But most of this demand was for hoarding purposes. The stock of rupees in the Issue Department of the Reserve Bank decreased from Rs. 75.47 crores at the beginning of the war to only Rs. 32 crores by the 5th of July, 1940. At first the Government allowed withdrawals freely. But it became impossible for the mints to supply rupees at the rate required by the hoarders. On 25th June 1940, therefore, by a notification the Government made it an offence to acquire coins in excess of personal or business requirements. As the machinery necessary for scrutiny could not be improvised at a short notice the rupee coin acquired a premium over the note and there was an acute shortage of rupee

(1) For details see Functions and Working of the Reserve Bank of India in a Reserve Bank Publication.

coins and small change. These difficulties, however, were soon overcome by the Reserve Bank and arrangements for the supply of reasonable amounts of small coins and rupees were made.

34. **Issue of new Coins:**—To meet the scarcity of rupees, which had created difficulties in making small payments, the Government authorized the issue of their own one-rupee notes by an Ordinance (No. IV of 1940) on 24th June, 1940. The status of these notes was exactly the same as of the rupee coins and they were not convertible into rupees unlike similar notes issued during the previous war. The Reserve-Bank paid themin exchange of its bank notes to satisfy the demand for rupees. As the new notes could not be manufactured immediately one-rupee notes which had been printed in 1935 for an emergency which did not arise, were put into circulation. Later (in July 1941) new notes of a different size and design were printed and issued to the public under the signature of the Secretary to the Government of India, Finance Department. Subsequently in February 1943, two-rupee notes of the Reserve Bank were issued under Sectian 24 of the Reserve Bank Act.

To meet the growing demand for four-anna and eight-anna pieces the Government issued new half-rupee coins under Ordinance No. VI of 1940. To prevent the hoarding of these coins and to economise silver, the silver content of these coins was reduced from 11/12 to ½ fine though their weight and appearance was kept the same as the old coins. In December of the same year new rupee coins of reduced fineness similar to the eight-anna pieces were issued. They contained 90 grs. of pure silver and 90 grains of base metal and possessed a security edge device, which was regarded as a complete safeguard against counterfeiting. To meet the increasing demand for coinage the Government decided to construct a new mint at Calcutta with a double minting capacity as compared with the old mint.

35. **Withdrawal of Standard Coins:** The withdrawal of Victoria rupees and half-rupees was under consideration even before the war. They were unpopular because many counterfeits were in existence, which could not be detected on account of the worn-out character of such coins. Now there was an added advantage of withdrawing them from the hoards. Consequently, an Ordinance was promulgated on the 11th of October 1940 which amended the Indian Coinage Act. By a notification under the amended Act it was declared that Victoria rupees and half-rupees would no longer be legal tender after March 31, 1941, but that they would continue to be accepted until September 30, 1941; at all Government Treasuries and Post Offices, and thereafter, until further notice, only at the offices of the Issue

Department of the Reserve Bank at Bombay and Calcutta. By a notification dated the 9th of November 1941 King Edward VII rupees and half-rupees ceased to be legal tender after 31st May 1942. They continued to be accepted till the 30th September 1942 at Government Treasuries and Post Offices, etc., and thereafter, until further notice, they were acceptable only at the offices of the Issue Department of the Reserve Bank, Bombay, Calcutta and Madras. Further by a notification of 1st October 1941 King George V and King George VI standard silver rupees and half-rupees 11/12th fine ceased to be legal tender from 31st May 1943. They were to continue to be occepted till the 31st October, 1943 at Government Treasuries, etc., and thereafter, until further notice, at the above-mentioned offices of the Reserve Bank. This was the culmination of the policy of the Government progressively to replace the standard silver coin 11/12th fine by the King George VI quarternary coin of ½ fineness. "The maintenance of such a high silver content as eleven-twelfths, had, besides being expensive, exposed the rupee to unduly speculative influences ; and with the Indian price of silver nearly equal to the metallic content of the standard silver rupee, the Government saw no reason why hoarders of standard silver coin should be given an indefinite option either to return it at its full nominal value or to melt and sell it as bullion."[1]

36. War-Time Absorption of Currency : The most important feature of the currency situation brought about by the war however, was the great increase that took place in the media of circulation, especially currency notes. On the 1st of September, 1939, there were Rs. 182.13 crores worth of currency notes (issued by the Reserve Bank) in active circulation[2] in India. On the 19th of October 1945, this figure stood at Rs. 1159.85 corres. This means an increase of Rs. 977 72 crores or over 536 per cent.

The following table gives the war-time absorption[3] of currency including notes, rupees and small coins up to the end of the financial year 1944-45—

(In crores of rupees)

Period		Notes	Rupees	Small Coins	Total
Sept 1939 to March 1940	...	59.6	19.5	2.6	81.8
April 1940 to March 1941	...	19.1	33.2	4.2	56.6
" 1941 " 1942	...	152.4	7.1	5.0	164.6
" 1942 " 1943	...	26 .5	44.9	11.6	351.4
" 1943 " 1944	...	235.9	25.6	15.4	282.9
" 1944 " 1945	...	202.4	21.00	19.2	231.0
Total		934.3	143.5	61.3	1133.2

1. Reserve Bank's Report on Currency and Finance (1942-43), p. 67.

2. Active Circulation = Total notes issued minus notes held in the Banking Department.

3. Absorption = Amount going out into active circulation minus amount returned to the Bank, which means net addition to active circulation.

Thus in sixty seven months of the war the currency in circulation increased by Rs. 1136 crores. Of this increase 82 per cent. was due to the increase in the note-issue. As regard the rate of absorption of notes the record year was 1942-43. when the percentage of absorption was 69 as compared with 66 during the year 1941-42. The year 1943-44 showed a decrease to 37 per cent., and the year 1944-45 a further decrease to 23 per cent.

37. **The Rise in Prices** : Side by side with this expansion of currency there was an enormous rise in the general price level, as shown by the table given below :

INDEX NUMBER OF WHOLESALE PRICES IN INDIA
(Week ending 19th August, 1939=100)

Years		Agricultural commodities	Raw materials	Manufactures	General index
1939-40	...	127	119	131	126
1940-41	...	109	121	120	115
1941-42	...	124	147	154	137
1942-43	...	156	166	190	171
1943-44	...	269	185	252	237
1944-45	...	265	206	258	244

In the case of certain individual commodities, no doubt the rise of price may be attributed to scarcity of supply or to speculative influences. For instance, the acute shortage of foodstuffs and the rise in food prices could be partially due to cessation of imports of rice from Burma and exports of certain foodstuffs combined with hoarding and transport difficulties in the country. But the large general increase in prices could not be easily explained on that account. There was a close relation of this rise in prices and expansion of currency. The following quarterly indices indicate this close association :—

JULY 1939=100

(All Figures Refer to the First Quarter of Each Year)

		1940	1942	1943	1944	1945
Notes in circulation	...	132	204	356	505	613
Wholesale prices	...	125	154	258	299	301
Demand deposits	...	105	167	273	390	455

There is, however, always a time lag between the issue of notes and the rise in price unless greater speculative influences are at work. The increase in prices was less than the increase in the notes in circulation. But this could prove a source of danger. This meant that a large proportion of the country's monetary resources were lying idle in the form of increased balances with the banks as shown by the increase in demand deposits, because

people could not find suitable channels of investment. With the appearance of new channels of investment these balance could lead to a further rise in prices.

. 38. Accumulation of Sterling Assets : We have seen in a previous section that before the Reserve Bank can expand its note issue the assets of the Bank in the Issue Department must increase. In fact, such an increase in the assets did take place as is shown by the following figures showing the changes in the assets of the Issue Department under the various heads :

Decrease (−) or Increase (+) over the figures of

1-9-939 on 3-8-45

		Rs. crores
1.	Gold Coin and Bullion ...	Nil
2.	Sterling Securities	+974.8
3.	Rupee Coins	− 58.4
4.	Rupee Securities	+ 20.5
5.	Total Assets	+936 9
	Total Notes issued	+936 9

It is clear that most of the expansion of currency occurred against sterling securities, These securities represented investments in the form of sterling in London. This money, in other words, was lent by India to England.

How did India get these sterling resources, and why were they kept in London in this form ? To understand this, it is necessary to explain the system of financing supplies purchased on behalf of His Majesty's Government in India, by the Indian Government.

39. War Finance : Some money was spent by the Government of India on behalf of India for war purposes. This money was shown in the regular budget of the Government under expenditure for defence. This was partly raised by taxation and partly by loans of various kinds. Apart from this, the Government of India spent every year considerable sums on behalf of His Mejesty's Government and other Allied Government for the purchase of the various kinds of war supplies. For these supplies His Majesty's Government made payment in the form of sterling in London. This sterling was partly used for the payment of Home Charges and partly it was used for repayment (or repatriation) of India's sterling debt and the rest was loaned to the British Government. The British Government's I. O. U's, or sterling securities were kept in London as assets of the Reserve bank of India. In the first instance they appeared as assets of the Banking Department, but were transferred to the Issue Department as need for rupee finance arose. Against these

assets, as the law allowed, notes were issued in India. These notes were used by the Indian Government to purchase war supplies mentioned above. It was thus that currency expansion occurred in India.

But all the sterling that was invested in sterling securities did not come in the possession of the Reserve Bank in this way. Part of it was purchased by the Reserve Bank of India from those who imported goods from India and wanted to make payments in rupees to Indian exporters. Below are given details of the various sources of sterling and the way the stock of sterling was utilized.

	Rs. crores
1. Sterling assets of the Reserve Bank, August, 1939 ...	64
2. Sterling purchased by the Bank, September, 1939 to March. 1945, ...	644
3. Sterling payments, by His Majesty's Government ...	1292
Total received ...	2,000
1. Sterling utilized for debt repatriation[1] up to the end of March, 1945	411
2. Other sterling commitments	226
3. Sterling holding of the Reserve Bank at the end of March, 1945	1,363
Total ..	2,000

40. Rupee Securities : Currency expansion took place not only on account of the increase in sterling securities but, as we have already seen, also on account of the increase in rupee securities. Previously under the Reserve Bank Act these securities could not be held in value more than Rs. 50 crores. But by an Ordinance of February 1941 this limit was abolished. This enabled the Government to borrow from the Reserve Bank (through the issue of notes) against its Treasury Bills or I. O. U's. Some of these rupee securities were substituted for the sterling securities held by the British creditors before the debt was repatriated. In so far as the sterling debt was paid through internal borrowing from the public, no expansion of currency took place.

41. Inflation Controversy : The enormous expansion of currency and the rise in prices in 1943 led to the controversy[2]

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1. Here it may be noted that the accumulation of sterling resources enabled India to reduce her sterling debt from.
Rs 469 crores in 1938-39 to Rs 38 crores by the end of 1944-45. To this amount the English creditors were paid off. Some of this debt was transferred to Indian creditors by internal borrowing by the issue of rupee securities (rupee counterparts) to the public. Some was taken up by the Reserve Bank. Hence the increase in rupee securities with the Bank.

2. If inflation is to be defined as an expansion of the purchasing power due to borrowing from the Central Bank to meet a budgetary deficit, then inflation in this sense does not exist in India. On the other hand if inflation is

whether this phenomenon could be regarded as inflation. One view represented by the Finance Member of the Government of India, the late Governor of the Reserve Bank and a few others, was that there was no inflation in India. The other view held by most of the Indian economists and non-official public men was that a very dangerous form of inflation had developed in India and, if left unchecked, would bring disastrous consequences to the country's national economy.

Those who denied the existence of inflation in India based their opinions on the following grounds; (*a*) that notes were being issued against sterling securities as provided by the Act, hence there could be no over-issue. (*b*) That as long as all the resources of the country were not fully employed, additional note-issue could not lead to inflation. (*c*) The rise in prices was due to scarcity of goods needed for civilian consumption due to diversion of resources for purposes of war. Therefore the real remedy was to increase the production of such goods. The rise in prices of foodstuffs was partly due to the stoppage of imports of rice from Burma, but was also due to hoarding, profiteering and lack of transport facilities. The remedy was to stamp out hoarding, control prices and profits and to make transport facilities more efficient. (*d*) That the increase in currency was a result, not a cause, of high prices, high prices being due to scarcity of supply in relation to demand.

The real truth was that the war-time rise in prices was due to inflation. All the arguments given to prove that there was no inflation in India contained a certain amount of truth in them, and that was why confusion arose. Let us examine them.

(*a*) It was true that if goods could move freely into and out of India, issuing of notes against sterling securities would not have caused over issue. Sterling securities would not have accumulated to this extent with the Reserve Bank. Goods exported from India would have been paid to a large extent by imports into India which could not come due to conditions of war and exchange control. Merely the existence of sterling securities 6,000 miles away could not prevent the rupee from depreciating in terms of goods in India when such goods did not increase as fast as the means of purchasing them.

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to be defined as a state of affairs arising out of the failure to meet the whole of the expenditure of the Government of India and of the Allied Government by means of loans and taxes raised in India, then inflation may be said to exist, since a certain proportion of the rupee resources required to finance the war costs, in this wider sense, has been obtained by the sale of foreign exchange to the Central institution—Sir Theodore Gregory.

(*b*) The theory that so long as the resources of a country are not fully employed, additional currency does not cause inflation, is true only under the assumption that these resources can be fully employed within a reasonably short time. India's potential resources might have been enormous. But the point was, could they be fully employed within a reasonably short period? It would appear that to the extent that such resources could be employed from the short-period point of view they were already fully employed. The scope for further employment was extremely limited. In industry old firms had expanded. New plant and equipment was difficult to get. In agriculture the pressure on the soil was already great. Increase in the production of one thing (food. stuffs) implied a decrease in the production of another (nonfood crops). The optimum limit of employment had already been reached long ago. Additional currency thus caused inflation.

(*c*) Scarcity of particular goods might have led to a considerable rise in their prices. But when all prices were rising, the cause obviously was more on the side of money rather than goods. Issuing money first with the hope that supply of goods would increase was to court inflation. Goods at most increased by about 20 per cent during the period of war. This was in spite of every effort to stimulate production. Currency, on the other hand, increased by over 530 per cent during the same period. Mere control of prices could not prevent inflation, even if price control had succeeded,

(*d*) The increase in currency is a cause as well as a result of rising prices. Once the process of inflation starts it feeds on itself. More currency in circulation leads to higher prices; higher prices demand more currency for making the same amount of purchases; the new currency pushes the prices still higher, and thus the spiral of inflation comes into existence. The initial drive usually comes, and in India it did come, through currency expansion.

"For all practical purposes," wrote Prof. Vakil at the time, "this operation (issue of notes against sterling received in London) is similar to the creation of artificial purchasing power by means of printing press by a Government in need, as was practised during the last war by several countries. This was inflation because inflation is nothing more than "a state of affairs when the volume of currency goes on increasing without being accompanied by a corresponding increase in production."[1] And this was what happened in India: From the point of view of that immediate present, the existence of sterling securities in London was entirely irrelevant.

(1) Vakil : Financial Burden of War on India.

42. **Evils of Inflation:** Inflation is a very serious disease for any country to have. It leads to many economic and social injustices and is fraught with political dangers if left to follow its course. Its evils are many: (*i*) By rising prices it seriously curtails the purchasing power of the currency unit and thus brings untold hardship on people with fixed incomes. After the last war many families in Germany were ruined on account of inflation. Even if bonuses and allowance are given by the employers, they rarely compensate for the whole of the rise in the cost of living. (*ii*) Inflation ruins creditors because they receive in real goods only a small portion of what they had lent during the pre-inflation period. (*iii*) Inflation encourage hoarding of commodities by consumers and also by middle men in expectation of higher prices in the future. This creates scarcity and distress if the commodities are essentials of life. The scarcity of foodstuffs prevailing in India was partly due to such hoarding. (*iv*) Inflation is a form of hidden taxation, but taxation of the worst kind, because it imposes higher burden on the people with lower incomes. The rich make money during the war and do not mind paying more for their purchases. The poor can hardly keep their heads above water. (*v*) Due to all these evils inflation creates a genuine discontent and hostility against the Government especially, as it was in India, if it is not a Government of the people themselves. Such hostility adversely affects the war effort. The Russian Revolution of 1917 and the rise of the Nazis in Germany can be attributed to the social discontente reated by inflation during and after the Great War (1914-18).

It is because of such evils that all modern countries, e.g., United Kingdom and U.S.A., took every pains to avoid inflation. Thus compared with July 1939, by the end 1944, while prices in India had risen by 200 per cent., in the United Kingdom they had risen only by 70 per cent. and in the United States only by 39 per cent.

43. **Inflation could Have Been Avoided:** The root cause of inflation in India, as we have seen, was the defective system of financing the purchases made in India on behalf of His Majesty's Government and the Allies, Payments were received in London, and this sterling was converted into sterling securities to be kept in the Issue Department of the Reserve Bank. Against these securities, notes were issued in India for making payments to the Indian sellers of goods above mentioned. The most important remedy, therefore, was to change this system of war finance. Thus:—

(*i*) The Indian Government should not have received payments in terms of sterling in London. Payments from Britain and her Allies should have been received in either some or all of the following forms: (*a*) gold, (*b*) machinery and other capital goods, (*c*) by liquidation of British assets in India, (*d*) by raising rupee loans in India on behalf of Britain and her Allies on the security of British assets in India. As a result of all these measures there would have been no sterling securities available to form part of the assets of the Reserve Bank against which notes could be issued.

(*ii*) The Government of India should have provided rupees for making purchases on behalf of His Majesty's Government and the Allies only to the extent of the amount that it could raise by means of taxes and loans over and above what it required for its own expenditure. Sterling payments could be received to this extent, but this sterling should have been kept as a balance in London, if necessary, but not transferred to the assets of the Reserve Bank's Issue Department.

Apart from these, other anti-inflationary measures should have been taken with the object of transferting as much purchasing power as possible from the hands of the public to the hands of the Government. These measures were of three kinds: (*i*) those relating to retrenchment and taxation, (*ii*) those relating to loans, and (*iii*) those relating to price control and of articles of consumption.[1]

Such measures, to some exrenr, were taken by the Indian Government. It was necessary to lower the inflated salaries offered by the Government to attract people for new posts created for war purposes. Taxation was put high, but it could have been still higher especially from those whose earnings were increased by the war. The problems of war loans and price control are discussed in their proper places.

44. Repatriation of the Sterling Balances: We have seen in section 39 above that the main cause of the accumulation of sterling balances in favour of India was the peculiar method of financing British war purchases in India. This factor, however, was not the only one that led to this accumulation. The sources of this sterling were: (*a*) All dollar and non-sterling assets held by Indians compulsorily acquired and taken over to the Empire Dollar Pool. (*b*) Annual surpluses in dollars due to normal trade balance and dollar exchange resulting from American military expenditure in India. These were also acqulred and taken over to the E. D. Pool. (c) Annual balance

1. Eastern Economist Volumes 5. No. 13, P, 457.

of India's external account. (d) Direct purchases of Indian raw materials and food by the British Government. (e) Expenditure incurred by Britain under Defence Expenditure Plan of which a considerable part was stores and supplies [1]

The following table gives some details of acquisition and disposal of sterling :—

	Sources		*Rs crores.*
1.	Sterling assets held by the Reserve Bank at the end of September, 1939	...	64
2.	Sterling purchased by the Reserve Bank, September, 1939 to March, 1945	...	645
3	Sterling payment by His Majesty's Government September, 1939 to March, 1945	...	1292
	Total amount available for disposal	...	2000
	Disposal		*Rs. crores*
4.	Sterling amount utilized for repatriation Schemes, (September 1939 to March, 1945)	...	411
5.	[illegible] figures) [illegible]	...	225
6.	[illegible] the end [illegible]	...	1363

After March 1945 sterling assets increased from Rs. 1,360 crores to about Rs. 1,560 crores by October 12, 1945[2]. On the 15th July 1947 these balances stood at £1160 or Rs. 1546 crores. This was the amount which had to be 'repatriated'. It was a debt which Great Britain had incurred from India. Most of it was a "forced debt" and emerged because of the inflationary methods of war finance adopted and of the compulsory acquisition of India's dollar resources. British opinion, however, hesitated to regard it a debt in the ordinary sense of the word The Indian point of view was that this sterling represented painfully accumulated savings of the Indian people and must be repaid to the last penny in the interest of reconstruction of India's economic life.

Subsequent events proved, however, that the fears of repudiation or 'scaling' down of this debt on the part of Britain were baseless.

After the Partition these balances had to be allocated between the Indian Dominion and Pakistan. We have already discussed the various agreements relevant to Pakistan in accordance with which sterling was released (see Chap. XIX).

1. Report on Currency and Finance, 1944-45, p 3a.
2. Sterling continued accumulating even after the War for some time specially in the Banking Department. This was due to payment being made for goods received before the War ended.

CHAPTER XXII

CURRENCY, BANKING AND INSURANCE (POST-PARTITION).

1. **Introduction.** It was on the 3rd June 1947 that the decision regarding the partition of India and creation of Pakistan was announced. This decision was to be implemented from the 15th of August of the same year. The intervening period, short as it was, had to be used for making arrangements preparatory to the partition of the country. Several committees were appointed to work out the details regarding the consequences of the division. One of these committees was entrusted with the complex problems of coinage, currency and exchange, division of assets and liabilities of the Reserve Bank of India, and the question of membership of the International Monetary Fund and the International Bank for Reconstruction and Development. It was obvious that Pakistan as a sovereign State had to have a separate and independent currency and banking system. But since the time for such a development was too short, it was considered wise to let the Reserve Bank of India continue for a time the Central Bank and currency authority for Pakistan as well as for India and to let the Indian currency notes and coins remain legal tender in Pakistan until the latter was in a position to introduce its own currency. The transitional arrangements were embodied in what is called The Pakistan (Monetary System and Reserve Bank) Order, 1947 promulgated by the Governor-General of undivided India on 14th August 1947.

2. **The Pakistan (Monetary System and Reserve Bank) Order, 1947.** The main provisions of this Order were as under :—

(*a*) The Reserve Bank of India was to continue to be the sole note issuing authority in Pakistan until September 30th 1948, later changed to 30th June 1948. "India Notes[1]" issued by the Bank were to be legal tender in Pakistan for the same period. The Bank, however, was to issue "Pakistan Notes[2]"

(1) India Notes were notes issued by the Reserve Bank of India. They were legal tender in India (and also in Pakistan upto a time).

(2) "Pakistan Notes" were notes issued by the Reserve Bank of India over printed with the words "Government of Pakistan." They were legal tender only in Pakistan.

after March 31st 1948. From 1st October 1948 (later changed to 1st July 1948) the Pakistan Government was to make its own arrangements for issuing currency notes.

(b) After September 30, 1948 (Later changed to 1st July) assets of a value equal to "Pakistan Notes" were to be transferred from the Issue Department of the Bank to the Government of Pakistan. The Government of Pakistan was, on the other hand, to accept "India Notes" at par until 31st March 1949 (later changed to 30th June 1949) and assets of value equal to such "India Notes" outstanding in Pakistan were to be transferred from the Issue Department of the Reserve Bank to the Government of Pakistan.

(c) The rupee coins and subsidiary coins issued by the Government of India were also to continue as legal tender in Pakistan for at least one year from the date of issue of the corresponding Pakistan coins. Such coins were to be put into circulation by the Reserve Bank after March 31, 1948 and India coins were to be used only to supplement Pakistan coins to avoid short supply. It was also provided that the Pakistan Government would make its own arrangement for issue of coins after September 30, 1948 (later changed to June 30, 1948).

The Reserve Bank of India was to continue to perform its usual functions in Pakistan as well and was to act as the banker of the Government of Pakistan upto September 30, 1948 (later changed to June 30, 1948). It was, however, decided that it would manage the Public Dept. issue of loans and exchange operations on behalf of Pakistan only up to March 31, 1948. (This date was later advanced to 30th June 1948).

(e) The Bank was also to perform its functions in relation to the scheduled and non-scheduled banks upto September 30, (later changed to June 30, 1948), in the same manner as was being done before the establishment of Pakistan.

3. **Earlier Establishment of Pakistan's Central Bank.** The above order was issued in the interest of smooth transition of Pakistan to an independent currency and banking system which was to be completed by the 30th September 1948. It was assumed that the Reserve Bank would act impartially in matters concerning the two Dominions and that the Government of India would show full co-operation. Moreover, almost a collapse of the banking system that occurred especially in western Pakistan, due to the migration of non-Muslims, was not anticipated at the time the Order was issued. Due to the gaps created in banking services and the experience of the attitude

of the Reserve Bank of India made the Pakistan Government realise the necessity of having her own currency system as early as possible. The Reserve Bank's impartiality was put to test when differences arose between the two Governments over the implementation of the financial agreement earlier arrived at between them. According to the terms of this agreement, in addition to the sum of Rs. 20 crores already transferred to Pakistan at the time of Partition, Pakistan was further entitled to a sum of Rs. 55 crores as her share of the cash balances of the undivided Government of India. The Reserve Bank showed reluctance to transfer this money to the credit of Pakistan.[1] Thus Pakistan realised that she could not count upon the impartiality of the Reserve Bank of India. "Evidence accumulated to show" in the words of the Annual Report of the State Bank, "that without control on its currency and banking the new born infant state of Pakistan was exposed to grave danger.[2]" It was thus that the Government of Pakistan thought of establishing their own currency authority earlier than originally envisaged. After negotiations with the Government of India it was decided to amend the original Monetary System and Reserve Bank Order in order to give legal sanction to this step. The Amending Order issued early in 1948 embodied among others the following decisions:

(1) The Reserve Bank of India was to be relieved of its functions in Pakistan from 1st July 1948.

(2) The Reserve Bank of India was to continue to manage exchange control and Public Dept on behalf of Pakistan till 30th June 1948.

(3) There was to be no exchange control between the two countries and no restrictions were to be placed on transfers of funds from one Dominion to the other upto 30th June 1948.

Thus the Reserve Bank of India was relieved of its responsibilities in Pakistan three months earlier than originally envisaged. Now the question was: should Pakistan have a full fledged Central Bank or should a Currency Board undertake these functions. The main difficulty that stood in the way of establishing a Central Bank was the shortage of staff. In spite of the fact that the Pakistan Government had guaranteed existing terms and conditions of service to all those in the service of

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1. Later this sum was transferred under pressure from Gandhi.
2. Report of Central Board of Directors for the year ending 30th June 1949, p. 3.

the Reserve Bank only a few of the officers and other supervisory staff opted for Pakistan. Only 8 officers and 13 superintendents (7 of whom were[1] probationary assistants) opted for Pakistan. The real reason was that in pre-partition days very few Muslims had taken to banking career among other reasons because of the lack of encouragement from those controlling the destinies of the banks including the Central Bank. In spite of this difficulty the Government decided to have a Central Bank especially because the general state of banking especially in Western Pakistan required rehabilitation and resurrection To implement this decision the State Bank of Pakistan Order was promulgated by the Governor-General of Pakistan on 12th May 1948 and the Bank came into existence on the 1st of July 1948. The inaugration ceremoney was performed by the late Qaid-e-Azam, the Governor-General, himself.

4. Constitution of the State Bank of Pakistan. The composition and the constitution of the Bank follow the usual model of Central Banks. Compromise has been achieved, however, between the ideas of having a share holders bank and a state owned bank. It has a paid up capital of Rs. 3 crores divided into 3 lakh shares of Rs. 100 each. Of the total capital 51% is subscribed by the Government and the remaining 49% by public subscription. Thus majority control has been retained by the Government though private enterprise has been given its due importance. In order to avoid concentration of capital in a few hands it is provided that no one subscriber should hold more than 500 shares. Moreover, while there is one vote for every five shares the maximum number of votes that a share-holder can exercise is ten. To give effective voice to share-holders, who cannot attend personally, voting can be exercised through a brother share-holder by proxy on each occasion. To exclude foreign control over the bank it is provided that a share-holder must be domiciled and resident in Pakistan.

In addition to individuals, shares of the Bank can be held by the following; a company registered under the Indian Companies Act, 1913, a society registered under the Co-operative Societies Act, 1912 or under any other law for the time being in force in Pakistan relating to Co-operative societies, a Scheduled Bank or a co-operative Bank or a company incorporated by or under the Act of Parliament.

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(1) In June 1949, a year after the establishment of the Bank there were 39 officers and 95 Superintendents in the Service of the Bank. State Bank Report. 1949. P. 4

Subject to approval by the Central Government the share capital can be increased by the Central Board of Directors.

Separate Registers of share-holders have been opened one each for the three areas *i.e.* Karachi, Lahore and Dacca. Separate issues of shares have been assigned to each area. The distribution of the shares among these areas on the 30th June 1950 was as under :—

	No. of share-holders.	No. of shares.	%of Total shares in each case.
(*a*) Public ...			
Karachi ...	1,551	69,771	23.257
Lahore ...	1,882	60,729	20.243
Dacca ...	1,731	16,500	5.500
Total ...	5,144	147,000	49.000
(*b*) Central Government	1	153,000	51.000
G. Total on 30th June 1950 ...	5,145	300,000	100.000
G. Total on 30th June 1949 ...	5,284	300,000	100,000

Total number of share-holders deceased from 5,284 to 5,145 between June 30, 1949, and June 30, 1950 and thus the average number of shares per share-holder increased from 27.8 to 28.6. This is only a slight change. State Bank Report (1950) P. 9.

As regards management the Bank is under the supervision and control of a Central Board of Directors and three Local Boards, one each for the three areas above mentioned.

The Central Board consists of the Governor (Deputy Governor or Governors would have been member but there is none yet) 9 Directors, of which 6 (one of whom must be a government official) are nominated by the Central Government and 3 elected by the share-holders, one from each register. The Central Board is required by law to meet at least six times in any calender year and at least once each quarter.

The day to day work of the Central Board is carried on by an Executive Committee which consists of the Governor, two Directors elected by the Central Board and an officer appointed by the Central Government to act as a member. The committee deals with all the matters within the competence of the Central Board when the latter is not in session.

There are Local Boards, one for each of the three areas of Karachi, Lahore and Dacca. For each Local Board four members are elected by the share-holders of each area from among themselves and not more than five can be nominated by the Central Government. The Secretary of the Board in each case is the (ex-officio) Manager of the State Bank at the centre concerned. In making nominations to the Local Boards the Central Government has to aim at securing representation to territorial or economic interests not represented in the course of election, particularly agricultural interests and interests of Co-operative Banks.

The Governor who is appointed for a term not exceeding five years exercises general supervision and control over the affairs of the Bank on behalf of the Central Board and is responsible for its day to day working.

Every year within three months of the closing of the annual accounts of the Bank a general meeting of share-holders has to be held either at Karachi or at any other place where there is an office or a branch office of the Bank. In this meeting the share-holders can discuss the annual accounts of the Bank, the Report of the Central Board, the Report of the Auditors etc. on the working of the Bank. The Auditors of the Bank are also elected in this meeting.

5. Functions of the State Bank. The State Bank performs the usual Central Banking functions *viz* (*i*) It is the banker of the Central and Provincial Governments, keeps their cash balances and is responsible for floatation and management of public loans on their behalf. (*ii*) It acts as a banker to the other banks of the country and exercises control over all banks in the interest of sound banking practices. (*iii*) It has the sole right of issuing currency notes and is responsible for the management of the currency system of the country. (*iv*) It is responsible for maintaining the external value of the currency and for implementing the exchange control policy of the Government. (*v*) It is the custodian of the monetary reserves, including the reserves of foreign exchange earned by our trade and commerce, including sterling balances. (*vi*) It acts as advisor

to the Government of Pakistan on all matters ralating to monetary problems in the country. (*vii*) Over and above these functions the bank has been charged with the responsibility of taking all possible steps for ensuring stability in the economic sphere so far as this can be done by monetary action. It has also to see that commercial banks are following sound methods of business. It has to ensure sound credit conditions to allow a smooth flow of trade and commerce in the country.

With the establishment of the Central Bank Pakistan acquired a sound basis for its financial system. The country was also qualified for applying for the membership of the International Monetary Fund and International Bank which she did. Her membership was accepted on the 11th of July 1950 and her quota was fixed at £100 million in each of these institutions.

6. **Banker to the State.** We now propose to study the functions and working of the State Bank in some degree of detail.

As a banker to the State the Bank (*a*) holds free of interest cash balances of the Central and Provincial Governments of Pakistan (*b*) is responsible for floatation of public loans and management of public debt (*c*) carries out their money remittances and exchange and banking transactions and also (*d*) makes short term loans (ways and means advances) to them.

Upto 30th June 1948 the Reserve Bank of India continued to act as banker to both the Central and Provincial Governments in Pakistan. After the creation of the State Bank amounts standing to the credit of these Governments with the Reserve Bank were transferred to the new institution. On 30th June the deposits of the Central Government amounted to Rs. 69.26 crores and of Provincial Governments Rs. 5.66 crores. The position on some subsequent dates is given below :—

		Deposit of		
		Central Government	Provincial Government	Tot al
Dates :—		Rs. crores.	Rs. crores.	Rs. crores.
9th July 1948	...	66.89	5.73	72.62
30th June 1949	...	74.57	4.28	78.85
30th June 1950	...	51.57	4.38	55.95
+increase —decrease during	1948-49	+7.68	−1.45	+6.23
	1949-50	−23.00	+0.10	−22.90

Variations in deposits during the two years were as under :—

	Central Government Highest.	Central Government Lowest.	Provincial Governments Highest.	Provincial Governments Lowest.
1948-49 ...	99.81	64.81	13.47	4.28
1949-50 ...	74.25	45.80	14.11	2.08

The deposits of the government particularly Central Government have shown considerable variation on account of large scale receipts and disbursements.[1] Between 30th June 1949 and 30th June 1950 Central Government deposits decreased by 23 crores while those of the Provincial Governments remained almost constant. During the course of the year, however, the range of variations was quite wide. This is quite natural because the expenditure of the government departments is more or less uniform through out the year while revenues flow in seasonally with the payments of land revenue for the provinces and movements of produce for export effecting customs revenue of the centre. The balances are also affected by short or long term borrowings of the Governments.

(1) State Bank Report (1949) p. 13.

If the Government's balances get depleted due to meagre inflow of revenues in certain seasons in the face of increased expenditure the Government can fill the gap thus created by temporary loans either from the public in the form of the sale of treasury bills or from the Bank in the form of getting "ways and means advances." So far the Central Government has not felt the need for getting ways and means accommodation from the Bank. The Provincial Governments of the Punjab, Sind and N.-W. F. P. had recourse to the Bank for financial accommodation during the year ending 30th June 1949. The total advances made to them amounted to Rs. 1.37 crores. All these advances were paid back before the end of that year except the sum of Rs. 6 lakhs granted to the Government of N.-W. F. P. which remained outstanding.

As regards the Treasury Bills the Bank soon after its establishment, in its capacity as the agent to the Central Government, commenced the sale of such Bills by tender in July 1948. The weekly sales were kept up at Rs. 50 lakhs (with one exceptson) upto the second half of September and later owing to greater demand from institutional investors was raised to Rs. 100 lakhs a week. The offers were reduced from the middle of October when stringent conditions prevailed in the money market due to financing of the movement of crops. The total tenders during the year ending 30th June 1949 amounted to Rs. 34.91 crores while the total amount offered for sale and accepted was Rs. 10 crores. During the year ending 30th June 1950 Treasury Bills were issued only in August and September 1949. The discount rate varied between annas 5 to annas 9 during 1948-49 and annas 8 to annas 9 during 1949-50. It should be noted that the Government by issuing Treasury Bills affects the rates of interest in the money market and in its turn takes advantages of favourable rates when such rates prevail. Usually in stringent money conditions, when there is great demand for funds by the business community, the Government desists from the sale of Bills. On the other hand under cheap money conditions when surplus funds are available the Government enters the market as a borrhwer. By such action rates of interest tend to remain more staple than they otherwise would be and the funds available are put to better use than they would be otherwise.

The State Bank also floats long term loans as agent of the Government and manages the public debt of both the centre and the Provinces. Management of the public debt involves payment of interest to bond holders and arranging for repayment or conversion as the case may be of the maturing loans.

During the first year of its existence the Bank floated the following three loans on behalf of the Central Government :—

Loans	Date of maturity	Issue price per Rs. 100 Rs. a. p.
(1) 2¾% Loan	1955-56	100 0 0
(2) 2¾% Loan	1958-59 and	99 7 0
(3) 3% Loan	1963 upto 30th Oct. 1948	...100 15 6 thereafter increased by 9 pies per cent. weekly.

The lists for the two loans remained open for subscription for one day only viz the 18th October 1948. The third loan was also issued on the same date but the list for it continued to be open upto 11th February 1949. The total subscriptions raised was Rs. 21.61 crores. During 1950 further issues of the same loans were made at the rates of Rs. 100-14-0, Rs. 99-8-0 and Rs. 100 respectively per every hundred. These issues remained on tap from 14th February to 11th March and the total subscription received amounted to Rs. 10 crores. As a result of these issues and ad hocs created by the Government of Pakistan during the year, the total debt of the Government of Pakistan stood at Rs. 85.91 crores on the 30th June 1950, as against Rs. 73.54 crores on 30th June 1949.[1]"

The Provincial Governments of Pakistan have floated no new loans since the partition. On the other hand the Punjab Government repaid 4% Punjab Bonds issued by the undivided Government of the Punjab which fell due on 18th September 1948 and 3% Punjab Bonds 1949 which fell due for redemption on 15th August 1949. On 30th June 1950 the outstanding balances of the loans of Provincial Governments were as under :—

			Amount Rs. lakhs.
(a) Punjab	...	...	14,25.2
(b) Sind	...	...	1,50.6
(c) N.-W. F. P.	...	...	57.2
Total		...	16,33.0

1. State Bank's Annual Report for the year ending 30th June 1950, p. 27.

7. Regulation and Control of Banking. Under the transitional arrangements, which lasted until the establishment of the State Bank of Pakistan, the Government of Pakistan could declare a banking company having a paid up capital and reserve of not less than five lakhs of rupees to be a scheduled bank, provided it was not a scheduled bank within the meaning of the Reserve Bank Act. The Reserve Bank had the power, with the previous consent of the Government of Pakistan, to make regulations in respect of its relations with Pakistan scheduled Banks and the management of clearing houses till 30th June 1948. Every Pakistan scheduled bank had to maintain with the Reserve Bank a balance of not less than 5% of its time liabilities and had to submit weekly returns of its assets and libilities. Similar returns had to be submitted by co-operative Banks in Pakistan which were covered by the Remittance Facilities Scheme. The Banking Companies Restrictions of Branches Act and the Banking Companies Inspection Ordinance were also to apply to the whole of Pakistan until 30th June 1948. In this way the Reserve Bank of India exercised control over banking in Pakistan.

With the establishment of the State Bank this control passed over to the new central Bank of Pakistan. The State Bank thus exercises control over the credit conditions in the country mainly through the scheduled banks which banks have been included in the second schedule to the State Bank of Pakistan Order. Their number on the 30th June 1950 was 36. These banks are required by law to maintain with the State Bank a balance which must not be less at the close of business of any day, than 5% of the Demand Liabilities and 2% of time liabilities of each such bank in Pakistan. By notification these limits can be increased if the Government thinks necessary. Each bank is required to send a weekly return of its position in this respect. Under the Banking Companies Control Act, 1948 (amended 1950) the Bank is empowered to control loans and advances made by the scheduled banks. The Act also lays down certain requirements for the banks regarding maintenance of liquid assets and keeping certain proportions of total assets in Pakistan. Further the State Bank can call for information from the banks, can caution them or prohibit them from entering into particular transactions. Under an amendment of the State Bank of Pakistan Order the Bank possesses extensive powers in connection with the control of banking. The amendment enables it to give direct lending and discounting facilities to banks in case of emergency. In this way the Bank comes to the aid of all

sound banks in the country and thus promotes sound banking practices among them. Under the Banking Companies (Restriction of Branches) Act (1946) as amended in 1948, permission of the State Bank is required for opening a new office of a bank or changing the location of an existing office.

The responsibilities of supervision and control of banks is carried out by the State Bank through the Banking Control Department. It deals with problems relating to scheduled and non-scheduled banks and keeps a watch over their affairs and operations. It also tenders advice on banking and financial matters to the Government.

8. Exchange and Exchange Control Through its Exchange Control Department the State Bank maintains the external value of the Pakistan-rupee and implements the policy of exchange control of the Government by co-ordinating the work of Exchange Control Offices at Karachi, Lahore, Dacca and Chittagong. The exchange control system is the same (with a few minor changes) as was previously followed by the Reserve Bank of India. The idea is to allocate foreign exchange, particularly hard currencies, with care so that such resources are used only for essential purposes. Control is also exercised over sterling area transactions though with less strictness compared to transactions with non-sterling areas.

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As a result of Pakistan's decisions not to devaluate the
rupee the contr[illegible]
especially when [illegible]
of exchange fo[illegible]
purposes. From [illegible]
the basic exchange allowances for travel. For U. K and Europe the allowance was increased and fixed at £ 1000 (once in two years) and for Middle Eastern countries it was increased to Rs. 7,000 annually. It was noticed, after the Devaluation of the pound sterling and other currences that a regular and organised traffic in foreign exchange had developed. The Government therefore reduced the basic allowance to Europe and U. K first to £ 600 and later to £ 250, and to Middle Eastern countries to Rs 1000 only. These reductions checked the unlawful transactions in exchange. Steps were also taken to

ensure that bookings for forward exchange only took place against bonafide commercial transactions and not for speculative purposes. In November : 1949 regulations governing the import and export of currency notes and coins were revised to prevent speculative traffic in currency. Their export and import was prohibited except with the permission of the State Bank. Incoming travellers, however, were allowed to bring with them Pakistan currency notes upto Rs. 50 per head.

To meet the difficulty for the Haj pilgrims arising out of the restrictions imposed on the import and export of Pakistan currency with affect from the 1950 Haj season a scheme was devised under which special pilgrim notes were issued by the State Bank. These notes could be encashed in Saudi Arabia like ordinary notes but could not be used in Pakistan. The Saudi Arabian banks were given re-imbursements in sterling against pilgrim notes repatriated by them.

Now as regards the rate of exchange. To maintain the Sterling-rupee rate of exchange the Bank buys and sells sterling at rates based on the official parity. This parity was 1s 6d for the rupee before the devaluation of the £ in September 1949. After devaluation the parity has been 2s 2d. Prior to devaluation in the rupee sterling exchange market the Banks rate for T. Ts was ffxed at 1s $5\frac{31}{32}$ d selling and 1s $6\frac{1}{5}$ d buying. After devaluation these quorations were raised to 2s $1\frac{27}{32}$ d selling and 2s $\frac{15}{16}$ d buying. These rates have continued unchanged since. The quotations for T. Ts on New York remained practically the same, Selling Rs. 332 for 100 dollars (as against pre-devaluation rate of Rs. $331\frac{3}{4}$) and buying at Rs. 330 as before.

9.—**Exchange Relations with India.** Exchange relations with india were governed by the Pakistan Monetary System and Reserve Bank Order as amended in March 1948 which provided that there should be no exchange control between the two countries and no restictions should be placed on transfer of funds from one Dominion to the other upto 30th June 1948. On the expiry of this Order the two countries entered into a Payments Agreement, the provisions of which were :

(*i*) Each Dominion to hold currency of the other upto a maximum of Rs. 15 crores.

(*ii*) After this limit had been reached the excess upto Rs. 10 crores was to be paid through the transfer of free sterling.

(*iii*) The balance if any was to be settled by transfers from No : 2 Account (blocked sterling).

(*iv*) Identifiable capital transfers of a large magnitude to be adjusted in No. 2 Account Sterling.

(*v*) There was to be no exchange control between the two countries.

The object of the agreement was to allow free trade between the two Dominions. It was further intented to protect each of them against excessive liabilities of free sterling which might have arisen in the absence of exchange control and the difficulty of distinguishing between capital and current transactions.

In actual practice the Agreement worked against the interest of Pakistan. During the first year of its working Pakistan had a favourable balance of trade with India to the extent of Rs. 24.70 crores. In lieu thereof Pakistan received only Rs. 2.30 crores in free sterling and Rs. 9.05 crores in blocked sterling. This left a balance of Rs. 12.75 crores in the form of Indian rupees in June 30th, 1949. The Government of Pakistan was not satisfied with this arrangement. The first agreement was only for a year and expired on 30th June, 1949. A revised agreement was reached which was to cover the next year ending June 30th, 1950. In this agreement it was arranged that the limit of payment through free sterling should be raised from Rs. 10 crores to Rs. 20 crores.

After the devaluation of the pound sterling on account of the exchange controversy, trade between India and Pakistan came to a standstill and the operation of the Payments Agreement ceased. In the meantime Pakistan's balance in India rupees which stood at Rs. 12.75 crores on 30th June, 1949 declined to Rs. 10.73 at the end of July, but on the day the £ sterling and the Indian rupee were devaluated it stood at Rs. 25.78 crores. Under the Payments Agreement this amount should have been written up to the extent of the devaluation of the Indian rupee. India however, refused to recognize Pakistan's new parity of Rs. 100 Pak = Rs. 144 India. By 30th June, 1950 the balance, however, was reduced to Rs 19.68 crores on account of Governments, drawings for assential needs[1]. It is hoped that necessary adjustments will be made now that India has accepted the par value of our rupee since 26th Feb, 1951.

As regards the rate of exchange with India, upto the devaluation crisis the Central Banks of the two couotries continued buying and selling each other's currencies at par.

1 State Bank Report (2nd year) P. 37.

After the non-devalution decision of the Pakistan Government the Reserve Bank of India announced on the 21st of September, 1949 that it would not quote any rate for the purchase and sale of Pakistan Rupee. As a result all transactions between the two countries came to a stand still. An unofficial exchange market, however, emerged outside the banking system. The situation was further aggravated by stoppage of Indo-Pakistan trade. While imports from India into Pakistan continued India imposed restrictions on the imports from Pakistan. The demand for the Indian rupee was further increased on account of remittances from Muslims in Pakistan to their dependents in India. Further demand arose in connection with the transfer of profits of Indian concerns operating in Pakistan and rent of agriculture and urban property accruing to residents of India. Inspite of this excessive demand for the Indian rupee the unofficial rate of exchange of Pakistan rupee remained substantially above parity. " It varied " in the words of the State Bank Report, " from parity to Rs. 100 Pakistan to Rs. 150 India, depending on the conditions prevailing at any time affecting the intensity of demand for one or other currency[1]." These unofficial dealings acted as a safety valve during abnormal times and relieved individual hardships. In November, 1949 orders were issued under the Banking Companies Control Act providing for resumption of dealings in India rupee by Scheduled Banks within the limits of their own resources. Due to their limited resources transactions were carried on by banks only on a limited scale. Transactions that took place under Part I of the Indo-Pakistan Trade Agreement of April, 1950 and which were accounted for in Indian rupees were in effect cleared in the official rate of exchange. " The goods were invoiced in India Rupees and documents transacted through the commercial banks were made out in India Rupees, but for purposes of payments by Pakistani importers and to Pakistani exporters, India Rupees were converted into Pakistan rupees at the official rate[1]".

From 1st June, 1950 Exchange Control was extended so as to apply to export from Pakistan to India and French and Portuguese, territories in India. Indian commodities which were to be exported free from exchange restrictions under the Indo-Pakistan Trade Agreement with India were, however, exempted. As already noted on 26th February, 1951 India announced her acceptance of the par value of the Pakistan rupee at Rs. 100

(1) State Banks' Report (2nd year) P. 38.
(2) ibid. P. 38-39.

Pak=144 Indian for all transactions. The Central Banks of each ... other ... are ... tions

10—**Pakistan's Currency system.**—The media of exchange in Pakistan consist of coins and currency notes. The coins (and one rupee notes) are issued by the Government of Pakistan and the currency notes by the State State Bank.

It will be remembered that under the Pakistan Currency System and Reserve Bank Order, the Standard Monetay unit of Pakistan was to be the "India Rupee until Pakistan's legislature provided otherwise. The Reserve Bank was to be the sole note issuing authority in Pakistan until 30th June, 1948. Till that time All India notes were to continue to be legal tender in Pakistan. After 1st April, 1948 rhe Reserve Bank was to issue "Pakistan Notes", and after 30th June, 1948 no more of these notes were to be issued by the Reserve Bank and Pakistan was to make het own cuttency arrangements

Accordingly the Reserve Bank of India began issuing "Pakistan Notes" from 1st April, 1948 These were bank notes of the Reserve Bank of India of the same design as "India Notes' but overprinted with the words Government of Pakistan " and "Hukumat-e-Pakistan" in English and Urdu respectively When the State Bank took charge of the currency function it continued to issue these notes in replacement of India notes

From 1st October, 1948, however, the State Bank started issuing of the Government of Pakistan Notes of the denominations of Rs. 5, Rs 10, Rs. 100 and bearing distinctive designs. From March 1, 1949 the Government of Pakistan's one rupee notes and the State Bank's two rupee notes were also issued

With effect from 1st November, 1949 the Government of Pakistan (under sub clause (2) of clause 22 of the State Bank of Pakistan Order 1948) demonetised the bank notes of the Reserve Bank of India of all denominations overprinted with the words Government of Pakistan In English and Urdu. These notes, however, will be accepted at all offices of the State Bank of Pakistan, treasuries and branches of the Imperial Bank of India conducting Government business. From the same date (1st November, 1949) the Government of Pakistan also demonetised the Government of India one rupee notes inscribed with the words Government of Pakistan in English and Urdu These notes, however, remained acceptable for exchange until 31st

October, 1950 at any Government treasury or at any branch of the Imperial Bank of India conducting Government business. Since that date they are acceptable until further notice at any office of the State Bank of Pakistan.

Now as regards coins. According to the Pakistan Monetary System and Reserve Bank Order, as already noted, rupee coins and subsidiary coins issued by the Government of India were to remain legal tender in Pakistan for at least one year after the introduction of the corresponding Pakistan coins. After 30th March 1948, the Reserve Bank was to put into circulation Pakistan coins as far as possible and to use India coins only to supplement them when they were in short supply. After 30th June 1948 the Government of Pakistan was to be responsible for issuing coins for Pakistan.

Pakistan coins were first issued by the Pakistan Government on 18th April, 1948. They bore distinctive Pakistan designs. The one rupee, ½ rupee, and ¼ rupee are made of pure nickel. The 2 anna, 1 anna, and ½ anna pieces are made of cupro-nickel alloy. The single pice coin is of bronze alloy and is of washer type.

As the Pakistan coins were issued, in accordance with the Pakistan Monetary System and Reserve Bank Order, the India coins were in due course to be demonetised. The India nickel brass two anna coin was demonetised on 18th July 1949. The India nickel whole rupee was demonetised from 1st October 1949, and India half and quarterney rupees from 1st December 1949 and coins of smaller denominations from 1st September 1950. These coins, however, will be accepted at treasuries and branches of the Imperial Bank conducting Government treasury business for a period of one year from the date of their demonetisation. At the offices of the State Bank they are to be accepted until further orders.

As Pakistan coins were put into circulation India coins progressively returned from circulation and the Bank was set the task of exchange, collection and disposal of these coins. All India coins other than nickel, brass and quarterney silver coins, were to be disposed off by remitting them to India under clause 3 (1) of Part (IV) of the Pakistan (Monetary System and Reserve Bank) Order 1947. In return the Government of India had to make payment of their bullion value (plus the cost of minting) to the Government of Pakistan. During the first two years of its existence (1st July, 1948 to 30th June, 1950) the State Bank has returned to India such coins to the value of Rs. 1,95, 53, 685.

It may be noted here that on 30th June, 1950 there were in circulation in Pakistan, the Pakistan nickel rupees to the value of Rs. 2.41 crores and subsidiary coins to the value of Rs. 2.09 crores. Thus while India coins to the value of Rs. 1.95 crores were taken out, Pakistan coins to the value of Rs. 4.50 crores were added to circulation. These figures do not include India nickel and quarterney rupees and India subsidiary coins still in circulation in Pakistan.

Coins however, form only a small proportion of Pakistan's Currency. The chief media of exchange are notes. It should be remembered that the one rupee note like the coins is issued by the Government of Pakistan and not the State Bank and is regarded a coin for all practical purposes *i.e.* it is not convertible by law into metallic coins.

11. **Pakistan's System of Note Issue.** We have already seen that upto 30th of June, 1948 the Reserve Bank of India was the currency authority for Pakistan and had the sole right of issuing notes. From 1st July, 1948 the State Bank of Pakistan assumed this function. The currency functions of the Bank are performed through its Issue Department operated on similar lines as the Issue Department of the Reserve Bank of India.

The assets of the Issue Department are subject to no other liability than that of notes issued. The Bank follows the proportional reserve System of issuing notes. 30% of the total assets of the Issue Department must consist of gold coin, gold [illegible] by law.

The assets of the Issue Department of the State Bank were created as a result of the division of the assets of the Issue Department of the Reserve Bank of India as they stood on the 30th June, 1948. It is obvious that Pakistan was entitled to assets in the same proportion as the notes in circulation in Pakistan areas. These notes as we have seen were of two kinds. "India Notes" and "Pakistan Notes". The amount of the latter which were issued from 1st April, 1948 was known. A method was to be devised to assess the amount of India notes in Pakistan, The Monetary System and Reserve Bank Order, Part IV (4) therefore laid down the following procedure of division of assets of the Reserve Bank's Issue Department as between the two countries.

Leader of the [illegible]

Soon after 30th June, 1948 assets of a value equal to the 'Pakista Notes' were to be transferred from the Issue Department c the Reserve Bank to the Government of Pakistan. The Goverr ment of Pakistan was to accept at par "India Notes" i Pakistan upto 30th June, 1949. These notes were to be hande over to the Reserve Bank of India which was required to trans fer assets of an equal value from its Issue Department to th Goverment of Pakistan.

The State Bank of Pakistan was thus entitled to the shar of the assets of the Issue Department of the Reserve Bank o India equal to the amount of "Pakistan Notes" in circulatio on June, 3oth, 1948 plus India Notes of Rs. 2 and above encashe in Pakistan from July, 1, 1948 upto June 30, 1949. Pakistar thus claimed the following amounts of assets :—

(1) Against Pakistan Notes in circulation on 30th June, 1948 :	Rs. 51.578 crores
(2) Against India Notes retired upto 30th June, 1949.	Rs. 125.18 crores
Total	Rs. 176.75 crores.

As regards the form in which these assets had to be received the 'Order' provided that the different types of assets of the Reserve Bank's Issue Department viz gold, sterling securities, India rupee coins, Pakistan rupee coins and the Government of India securities were to be transferred in the same proportion in which they were held by the Issue Department of the Reserve Bank on 30th June, 1948. Before division however sterling securities had to be reduced by the amount comprising of (*i*) payments in sterling to the United Kingdom against liability of pensions of British servants and stores and installations transferred to undivided India. (*ii*) The amount payable to provincial and central Governments of Pakistan in sterling in payment of their cash balances with the Reserve Bank and (*iii*) the balances with the Reserve Bank's Account No : 1 with the Bank of England. This reduction in sterling securities was to be made up by a corresponding increase in the Government of India securities.

After making these adjustments Pakistan's share out of the assets of the Reserve Bank of India came to be as under :—

Assets :	Amount of Reserve Bank's Assets as on 30th June, 1948 Rs. crores	Reserve Banks Assets after making adjustments in Sterling. Rs. crores	Pakistan's share Rs. crores	Percentage of each to total
Gold	44.41	44.41	5.82	3.29
Sterling Securities	11,35.33	10,27.61	134.44	76.06
Rupee Securities	1,27.84	2,35.56	30.81	17.43
Rupee Coins	43.51	43.51	5.68	3.22
Total	13 51.09	13,51.09	176.75	100.C0

Of these Rs. 176 75 crores, Rs. 51 57 crores were transferred to the State Bank of Pakistan soon after its establishment because they were against Pakistan's notes in circulation on 30th June, 1948 the amount of which was known. The amount of India Notes in circulation in Pakistan were not known at the time. These were to be withdrawn and returned to the Reserve Bank of India and against their assets of equal value had to be received. This arrangement continued to work satisfactorily until March, 1949. India Notes were collected by the State Bank of Pakistan and were sent to the Reserve Bank of India's offices at Bombay and Calcutta from West Pakistan and East Pakistan respectively. In return Assets of equal value were transferred by the Reserve Bank of India to the State Bank of Pakistan. In March, 1949, under orders [illegible] transferred. In spite of all efforts on the part of Pakistan, India has not yet agreed to this transfer.

As a result of devaluation of the pound sterling and the India rupee the foreign exchange assets of the State Bank had to be revalued. All assets with certain exceptions, mentioned here after, were revalued at the new rate of exchange and deficiency made up (as is usually done in such cases) by issuing Government Securities. In the case of certain assets however, there was doubt whether they should be revalued. This question remained under the consideration of the Government till about the end of Augest 1950. It was because of this that the Bank did not issue the weekly statement of their affairs for a period of two months after the close of the year ending 30th June, 1950.

For the same reason meeting of the Central Board for the consideration of the Annual Report which must be held within two months of the closing of the Annual Accounts, was delayed till the 7th of September, 1950.

The assets regarding the revaluation of which there were doubts were[1] :—

(1) India notes representing assets receivable from the Reserve Bank of India—Rs. 43,10,54,000.

(2) Assets held with the Reserve Bank of India pending transfer to Pakistan.

(3) Balance of our account with the Reserve Bank of India —Banking Department—Rs. 25,77,75,000.

The question was whether (1) and (2) should be revalued pending their actual physical transfer and (3) pending its being written up by the Reserve Bank of India.

Ultimately it was decided to revalue items (1) and (2) and to leave (3) as it was. The Government thus sanctioned the issue of Government securities of the face value of the Rs. 14.83 croses to make up the deficiency caused by the revaluation of the assets mentioned under (1) and (2). Under Payments Agreement India ought to write up the balance of our account with the Reserve Bank as it stood on 18th September, 1949. The Government of India has so far refused to do so since they have not yet recognised the new exchange value of the Pakistan rupee.

The results of devaluation of the assets of the Issue Department are tabulated below :—

Assets[2].	On 30th June 1949 Rs. crores.	On 30th June 1950 Rs. crores.	+ increase — decrease Rs. crores.
Sterling Securities ...	88·11	70.18	—17.93
Government of India Securities ...	33.92	15.08	—18.84
Indian Notes and Coins	43.14	30.28	—12.86
Total Foreign Assets ...	165.17	115 54	—49.63
Gold ...	4.20	4.20	......
Government of Pakistan Securities ...	Nil	50.97	+ 50.97
Total Notes issued ...	175.05	176.50	+ 1.45

(1) Annual Report op cit, (2nd year) P. 12.
(2) Including assets still with the Reserve Bank of India.

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... been a considerable increase in the notes issued on account of the need for financing cotton exports. On February 16, the total notes issued were Rs. 217.9 crores *i.e.* Rs. 41.4 crores more than the figures for 30th June, 1951. On the assets side the sterling securities were higher by Rs. 12 crores and Government of Pakistan securities by Rs. 30 crores.

12. **Regulation of currency and credit system.**—The most important function of a Central Bank is the regulation of the currency and credit system of a country. Being the Banker of the state, the Banker's Bank and the sole note issuing authority the Central Bank is in a position to control and regulate the flow of ...

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tion of more purchasing power, it lowers its Bank rate which influences other rates of interest in the same direction and thus inaugurates a cheap money policy which encourages greater flow of money into circulation and greater use of credit. If this policy does not lead to the desired results the Bank purchases securities by offering attractive terms and thus increases the balances of the member banks with itself which become a basis for credit expansion. When the Central Bank wishes to contract the currency and credit it follows the opposite policies of raising its Bank Rate and selling securities in the open market. By these methods the Central Bank can encourage stable prices by counteracting fluctuations in movement of prices and most of all can encourage or discourage investments as the economic situation of the country may require. In this way it promotes stable economic conditions and encourages full employment in the country.

This is not the place to go into the details of the theory of the Central Banking. The fact that is relevant for our purpose

is that in order to enable the Central Bank to effectively exercise this important function the country must have a properly organized banking system and a well developed market for securities and Bills. Pakistan is lacking in all these facilities. The number of banks in the country, is very inadequate, banking habit among the people is yet undeveloped, and until recently there was no properly organised stock exchange[1] and the trade and commerce is more used to financing through cash credits than through bills. Moreover, the country's economy is almost entirely agricultural which does not lend itself so easily to quick influences of banking policy on the pace of investment and development.

The State Bank, however, does exercise as we have already seen some control over the activities of the varrious banks and through them over the general economic conditions in the country. It purchases and sells securities of the Central, Provincial and State Governments as the situation may require. It has been given power to purchase, sell and rediscount certain types of bills of exchange and promisory notes. Thus it deals in specified types of bills and promisory notes of a maturity not more than 90 days. It also deals in certain other types of bills of exchange and promisory notes drawn or issued for the purpose of financing seasonal agricultural operations or marketing of crops of a maturity not more than 9 months. The Bank can also extend loans and advances repayable on demand or on expiry of fixed periods not exceeding 30 days, aganist specified securities to local authorities, Scheduled Banks or Provincial Co-operative Banks. The Bank like other Central Banks announces[2] from time to time the rate at which it is prepared to discount or rediscount bills or other commercial paper in which it is authorised to deal. But these legal provisions are taken advantage of only on a very small scale due to the reasons already noted. Its purchase and discounting of Bills is entirely confined to Governments Treasury bills and so is the case with securities.

Things are, however, gradually improving. A stock and share market has already come into existance at Karachi mainly due to the encouragement given by the State Bank. Its operations are still very restricted, but it holds out a promise of rapid

(1) The Karachi Stock Exchange Association was incorporated in March, 1949 and consists of 100 members. It provides facilities for floating of new capital issues and for dealings in the existing stocks and shares. The volume of its business, however, is yet very limited though it is steadily growing.

(2) The Bank rate so far has remained unchanged at 3%.

development in the future. In the security section dealings as already noted are still mostly confined to Government securities. The shares section has also been active and has been reacting more or less accurately not only to internal conditions but also to developments in other countries in the economic and financial sphere. That the use of bills is growing is indicated by the fact that according to the returns of the Pakistan Scheduled Banks the "Bills discounted" by them increased in value from Rs. 42 lakhs on 16th July, 1948 to 267 lakhs on 1st July, 1949 to 630 lakhs on 16th February, 1951. The banking habit among the people however, is developing very slowly indeed. Thus the demand and time liabilities of the schedules banks were Rs 107 crores on 16th July, 1948, Rs 107 crores again on 1st July, 1949, Rs 116 crores on 22nd December, 1950 and 119.8 crores on February 16, 1951.

To exercise proper control over economic life and development the State Bank must follow an active policy towards the development of a properly organised money market. Towards the achievement of this end the main steps that may be taken are: More frequent issue of Treasury Bills, establishment of more intimate contact with the non-scheduled banks and thus bringing them into the sphere of control of the State Bank, offering increased facilities of rediscounting and encouragement of the use of Trade Bills for financing of Trade and Commerce. The Trade Bills Market in Pakistan is almost non-existent. To bring such a market into existence the State Bank must give full facilities for the discounting of first class Bills arising out of *bona fide* commercial transactions. The Bank should encourage the establishment of Clearing Houses and Accepting Houses for Bills in important commercial centres. Further, the use of Bills can be popularised by creating ware housing facilities.

13. Banking Position Before Partition.—So for we have confined our attention mainly to the functions and activities of our Central Bank the State Bank of Pakistan. Before we pass on to the study of the other kinds of banks existing in the country it would be instructive to review briefly the position of banking in Pakistan before partition and the effects of partition on our banking structure.

Before partition there were 3,146 total offices of Scheduled Banks in India of which 98 were Head Offices. Of the Head Offices 13% and of the total offices 20% were located in areas later demarcated as Pakistan. In the case of non Scheduled Banks (with capital and reserve of over Rs. 50,000) which had a

total of 2,205 offices including 619 Head Offices, the Pakistan areas contained 25% of them. Thus in proportion to population, except for Head Offices of Scheduled Banks, Pakistan's share was not at all inadequate.

As between the two parts of Pakistan, however, banking facilities were unequally developed, Western Pakistan being better off. Thus 10 out of 13 Scheduled Banks and 153 out of 157 non-Scheduled Banks (Head Offices) were situated in the Western Pakistan. When it is remembered that Western Pakistan contained only one-third of the total population of the Dominion this inequality of banking facilities becomes all the more glaring.

Although Pakistan was on the whole well supplied with banking facilities the actual business transacted in these areas was much smaller than in the rest of the sub-continent. Thus immediately after partition (22nd August 1947), of the total of 1033 crores demand and time deposits only 104 croses or 10% related to banks in Pakistan. And of the 419 crores worth of Advances and Bills discounted only Rs. 45 crores worth were done in Pakistan. Clearing House Returns relating to the year 1946-47, also stress the same point. The total clearing for the year was Rs. 7168 crores of which only 350 crores or 5% was accounted for by banks in Pakistan. The proportion accounted for by Pakistan areas was even less (3%) in 1938-39.

The lower banking business done in Pakistan areas is mainly explained by the agrarian character of the economy of these regions.

14: **Effects of Partition on Pakistan Banking.**—Banking in India including Pakistan had always been a close preserve of non-Muslims especially the Hindus. Muslims had been scrupulously kept out even from clerical employments in these institutions. Moreover non-Muslims had fought tooth and nail to the last minute against the creation of Pakistan. When Pakistan became a certainty—long before actual partition—Hindu and Sikh bankers started transferring their assets and their Head Offices from the Pakistan areas to places now in the Indian Dominion. This tendency was accelerated as soon as the country was divided. Thus it is estimated that out of 29 Joint stock Banks in the West Punjab, 27 had transferred their offices to the East Punjab and Delhi. Before partition there were 314 offices of scheduled banks working in areas which later became Pakistan. This number was reduced to 62 after partition. Similarly the offices of non-scheduled banks were reduced from 84 to 15 over the same period. These banks also took steps to reduce their

commitments by calling off their advances. The lead in this matter was given by the Punjab National Bank Ltd. Such steps started being taken as early as March 1947. This was done partly for security reasons but mainly as a protest against the foreshadowed division of the country or, as some would hold, with the motive of paralysing the economic life of the new State.

On the eve and immediately after division, when large-scale disturbances took place in the Punjab, the Hindus and Sikhs migrated out of the Western Pakistan provinces especially the West Punjab and N.W.F.P. This movement drained these areas of almost all the employees of the various banks and the country was faced with a serious crisis.

As regards East Pakistan though the banking offices were not moved out on such a scale their registered offices were transferred to India and their activities regarding the financing of trade and industries were greatly restricted.

15. How the Government Met the Situation.—The Government took several steps to restore normal banking facilities in Pakistan. In the first place the following guarantees were given to Banks to create confidence :—

(*a*) Bank's properties used as offices, godowns, residential quarters for bank clerks and officials would not be requisitioned without ascertaining that the Bank concerned proposed to open its doors at the station in due course or not.

(*b*) Banks should be free to secure protection of police etc. for necessary purposes as a matter of course, against payment to the Government according to an agreed schedule.

To facilitate settlement of claims the Government made the following arragements :—

(*a*) Each Bank was to declare one of its offices both in India and Pakistan as clearing house for transfer of accounts.

(*b*) Each Bank was to open at least one central office in Pakistan where it could consolidate work of all its branches and start paying out to depositers.

Apart from this the Government undertook arrangements for training of Muslims for service in banks. They also agreed to give facilities to banks to survey their financial position.

There had been complaints of the banks refusing to cash cheques of the Pakistan nationals and also to hand over securities kept in their custody. The Government issued an Ordinance to meet this situation. The Ordinance empowered the Government to investigate such complaints and, if satisfied of

their *bona fides*, to order payments and in case of non-compliance to realise assets of the bank sufficient to discharge such liabilities.

The Government also allowed especially in the (West) Punjab the removal of valuables from safe deposit vaults and lockers through an application to the custodian of Evacuee property for a permit. In granting such permits the custodian had to satisfy himself that no claims against the applicant in respect of the valuables concerned were pending.

These steps were taken by the Pakistan Government by mutual arrangement with the Indian Government with the object of promoting normal banking conditions in the country and to induce non-Muslim banks and bankers to stay on. These measures, however, did not succeed in persuading the non-Muslims not to leave the country. The gap had to be filled by Muslim banks and Muslim staff and is being filled remarkably well.

16. **Inter-Dominion Agreement on Banking.** Several of the Indian Banks that closed down their offices in Pakistan had failed to discharge their liabilities to the depositors in Pakistan. On the other hand the Muslim refugees who came from India were finding it difficult to draw upon their deposits they had left with the Indian banks. The Government and the State Bank of Pakistan received a large number of complaints of this kind. The Central Government of Pakistan set up two separate sections one at Dacca for East Pakistan and the other at Karachi for West Pakistan to deal with such complaints. The Karachi section alone received as many as 1312 complaints involving a sum of Rs. 75.28 lakhs. These complaints were taken up with the banks concerned but without satisfactory results. Some banks had completely disappeared others had suspended payments and even from those that were functioning normally in India there was little response. In April 1949 after an inter-Dominion Conference held at Lahore an agreement was reached between the two countries which among other things provided as follows[1] :—

1. *Transfer and payment of bank deposits.* (*a*) In the case of banks functioning in East Punjab and East Punjab States and which had also their offices in West Pakistan the accounts of all Muslim depositors in East Punjab and East Punjab States was to be transferred to their respective branches in West Pakistan except where either no request for transfers had been made

(1) See State Bank Report for the year ending 30th 1949 pp. 24-26.

or specific requests for retention of accounts had been received. The banks were to advertise the proposed transfers so that the depositors could take objections if necessary.

(b) In case of banks functioning in East Punjab and East Punjab States, which had no office in West Pakistan lists of Muslim accounts were to be kept in a bank in West Pakistan to be specified for this purpose and arrangements were to be made for payment on application from depositors

(c) In the case of banks functioning in both the Dominions if Muslims deposits had been transferred from West Pakistan to India without application from depositors these had to be retransferred back to West Pakistan

(d) In the case of Muslim accounts with banks in India outside East Punjab and East Punjab States they were to be transferred to a branch of the bank concerned in Pakistan on simple application from depositors

2 *Banks Withdrawing from Pakistan*—Such banks could on depositing with an approved bank an amount equal to their outstanding liabilities in West Pakistan remove their accounts books and remit surplus funds provided certified copies of the accounts were kept in Pakistan Similar arrangements were to be made in the case of the Indian branches of the Australsia Bank

3 *Stocks Pledged or hypothecated with Banks*—Banks were allowed certain facilities for the disposal of such stocks and for registering their claims with the custodian against evacuee borrowers

4. *Regarding co-operative institutions in the Punjab.*—(*i*) The Punjab Provincial Co-operative Bank was required to transfer to the Reserve Bank of India securities of face value of Rs 104 66 lakhs which had been deposited with it by the co-operative institutions in East Punjab before the partition. After this transfer was completed the Provincial Co-operative Banks in East and West Punjab could be authorised to make payments to depositors migrating from the other provinces (*ii*) Both the countries were to invite claims from evacuee depositors which were to be listed by the Registrar in each country for verification. These claims were to be verified and settled by the end of August 1949 and payment to evacuee depositors was to be made through the Provincial Registrars

An Inter-Dominion Committee consisting of two representatives of each dominion was set up to watch the implementa-

tion of the agreement. But before the agreement could be implemented in full, due to the devaluation developments remittance facilities between the two countries through the normal banking chnnels came to a standstill and a large number of complaints regarding the transfer of accounts remained unsatisfied.

On the 12th and 13th June 1950 the first meeting of the Implementation Committee was held at New Delhi. The committee made certain proposals for implementation of the agreement. But since many of the banks against whom the complaints have been received have either suspended payments or gone into liquidation, payments in such cases can only be made from the assets of such banks available for distribution among their creditors.[1]

17. **Training Scheme of the State Bank.**—It has already been mentioned that there arose a great paucity of trained bankers in Pakistan after the migration of the non-Muslims. The Government of Pakistan issued a directive to the State Bank, after its establishment, to make arrangements for the training of Pakistani Nationals in commercial banking. A scheme of training was thus instituted under which about 100 highly qualified candidates were selected from all over Pakistan for such training. With a few exception all these trainees have already passed their prescribed tests and have been absorbed in the service of the State Bank, the National Bank of Pakistan (of which more later) and other Commercial Banks, some as officers and others as supervisors. Thus the number of trained young men in Banking is on the increase and the problem of shortage of trained staff is being steadily solved.

18. **The Present Banking Structure—Commercial Banking.**—Apart from the State Bank of Pakistan other categories of banks and financing institution in the country are : Commercial Banks, Post Office Savings Banks, Co-operative Banks, Industrial Finance Corporation, Insurance Companies etc.

The Commercial banks in Pakistan consists of the Imperial Bank, the Habib Bank, the National Bank of Pakistan, the foreign exchange Banks and other scheduled and non-scheduled banks.

The Imperial Bank of India is now a foreign bank. Before partition this bank occupied a special position in the Indian sub-continent. It had a wide net work of branches all over the

(1) State Bank Report (1949-50) p. 22.

country and acted as agent of the Reserve Bank of India where the latter had no branch of its own. It has continued to play the same role even since partition and acts in Pakistan as an agent to the State Bank. It has 28 offices throughout the country and on 25th August, 1950 its deposit liabilities were 15% of the total deposit liabilities and its advances 25% of the total advances of the scheduled banks in Pakistan. With the establishment of the National Bank of Pakistan it is hoped that the latter will gradully take over the agency work from the Imperial Bank as time passes.

Habib Bank is a private bank and was originally registered in India. Since the partition it has transferred its head office to Karach. This bank has 30 branches in Pakistan and handles quite a large proportion of the banking business of the country.

The foreign exchange banks are all foreign. Among these are the Chattered Bank of India, Australia and China, the Mercantile Bank of India, Grindley's Bank, Lloyed's Bank, the Bank of China and Netherlands Trading Society. These banks handle quite a substantial proportion of commercial business of the country and their deposite liabilities on 25th August, 1950 were about 36% of the total deposit liabilities of the scheduled banks. These banks hold a virtual monopoly of our foreign trade business.

Among the Commercial Banks, the National Bank of Pakistan is likely to assume the greatest importance in the future and hence requires a more detailed study.

The National Bank of Pakistan was established in November, 1949 by an Ordinance promulgated by the Government of Pakistan. In due course the Ordinance will be replaced by an Act of lagislature. The bank is still working under the transitional constitution which provides for a small nominated Central Board. Under the permanent constitution there is to be a Central Board at Karachi and three Local Boards at Karachi, Dacca and Lah[illegible]
Boards will be partly nominated [illegible]
holders. The steps to enforce to [illegible]
constitution have already been taken.

The Bank is being run jointly by the State and Private enterprise. It has a total paid up capital of Rs. 6 crores divided into 6 lakh shares of Rs 100 each. The highest limit of the [illegible]

was paid up when the bank started its business. Later on permission of Government shares were allotted to applicants. Total share capital issued on 31st March, 1950 was Rs. 38, 87, 500.

Soon after partition the necessity of having a commercial bank of this type was realised as the leading commercial bank of predivisian India the Imperial Bank of India became a foreign concern and moved most of its branches out of Pakistan. The matter was under consideration of the Government and it was planned that the new bank should come into existence about the middle of 1950. The crisis that the Jute trade had to face after Pakistan's non-devaluation decision, however, accelerated the progress of the scheme and the Bank had to be established about six months earlier than the original plan.

The bank was expected to undertake all kinds of banking business including that of an exchange bank. Special attention, however, may be drawn to the two functions of the bank which are of particular significance.

(*i*) Provision has been made for "the lending of money and of opening of cash credits upon the security of goods or the documents of title which are deposited with or assigned to the bank as security for such advances, loans or credits." Provision has specifically been made regarding the financing of jute, cotton and other agriculture commodities.

(*ii*) The second provision which requires special attention is that the bank has to carry on "the paying, receiving and remitting money, bullion and securities under any agreement with the State Bank of Pakistan or undertaking and transacting any business which the State Bank of Pakistan may from time to time entrust to it."

The significance of the first provision is that the bank can help in the matter of financing the movement of agricultural commodities. The financing of jute and cotton has been specifically mentioned because of the situation arising out of Pakistan's decision regarding her rupee ratio. The provisions, however, can be of permanent importance for financing of agricultural commodities for which adequate facilities do not exist in the country.

The second provision indicates that the National Bank of Pakistan will assume the same agency functions in respect of the State Bank of Pakistan as are performed by the Imperial Bank of India in respect of the Reserve Bank of India.

Other functions of the bank are buying and selling of gold and silver, receiving deposits, receiving securities for safe custody, transacting agency business on commission, borrowing money on security of its assets, investing funds in specified classes of securities, acting as administrator for winding up estates, and to act as agent to the State Bank where necessary.

The Bank started its operations in November, 1949 and has established, in addition to the central office of Karachi, and principal local offices at Karachi, Lahore and Dacca, five branch offices in East Pakistan at Narayan ganj, Mymensingh, Chand pur, Rangpur and Khulna. On account of the lack of staff the bank during the first six months mainly confined itself to helping the jute trade which had been passing through difficult times. To meet the Jute situation the [illegible] created a Jute Board in October, 1949 [illegible] and control regarding the moveme[illegible] appointed agents for the purchase of raw jute. The National Bank worked in co-operation with this machinery of the Government. It made direct advances to the jute purchasing agents to the extent of Rs 4 crores. Indirectly it encouraged other banks to make advances for the financing of jute. During this period the bank was precluded from undertaking the ordinary banking business.

This was partly because of the lack of staff and partly because the Government wanted to maintain control over its working so long as it was financing jute trade. For the latter purpose the bank was permitted by Government to accept fixed deposits of sums not less than Rs. 1 lakh and inter bank call loans in amounts not less than Rs. 25 lakhs in each case.

After this transitional period was over the bank was allowed to undertake the usual banking business including foreign exchange transactions. Commercial banking business was started by the bank's Karachi office from the 1st of May, 1950 and by its Lahore and Dacca offices from 1st June, 1950. Now the bank opens Current, Saving Bank and Fixed Deposit Accounts, and arranges internal and foreign remittances. It is, how[illegible] es against the secu[illegible]

[illegible] to depend [illegible] borrowings from the State Bank of Pakistan. Now it has [illegible] ed enough funds through fixed deposits and inter-bank [illegible] loans to make it financially independent of loans from the [illegible] Bank. It has, however, approached the State Bank for [illegible]

curring subsidy for a few years on the same lines as the subsidy granted by the Reserve Bank of India to the Imperial Bank of India. This is because the National Bank is to perform similar agency functions for the State Bank as the Imperial Bank does for the Reserve Bank.

As regards the future the bank has an ambitious programme of giving efficient and extended banking service to the country. It is expected to open its branches all over the country at suitable places. Branches will be opened shortly at Peshawar, Rawalpindi, Sialkot, Lyallpur, Multan, Hyderabad (Sind) and Saddar (Karachi). It will thus help in filling up the gaps created in the banking field on account of the migration of non-Muslim banks and banker out of Pakistan.

It has already helped in the solution of the problem of supplying funds to Haj pilgrims in Saudi Arabia. Early in 1950 it opened an office at Jeddah through which it made possible the successful use of pilgrim notes of which we have already spoken.

The establishment of the National Bank is a welcome step especially because of the meagreness of banking facilities available in Pakistan. As the net work of its branches spreads the bank will go a long way in creating banking habits among the people and meeting the banking needs of our economy.

The main difficulties in the way of expansion of the operations of the bank are the lack of trained staff, accommodation for offices and housing of the employees, and the absence of properly organised stock exchange, bill and money market. These difficulties in fact stand in the way of all banking development in Pakistan. Attempts are, however, being made to overcome them.

All the important commercial banks of the country are included in the Second Schedule to the State Bank of Pakistan Order and are hence called Scheduled Banks. Such banks must have a minimum paid up capital and surplus of Rs. 5 lakhs. The Imperial Bank of India, The Habib Bank, the National Bank of Pakistan and the Foreign Exchange Banks are all scheduled banks. The scheduled banks handle by far the largest part of the total banking business of the country.

Apart from these there are commercial banks which fall under the category of Non-Scheduled Banks. They are smaller in size and have limited resources. Their number, however, is quite large (189 in all) but the business transacted by them is rather small. They are mostly found in East Pakistan.

Commercial banking in Pakistan is mainly in the hands of foreign concerns. In foreign trade especially, the foreign banks hold a virtual monopoly as the exhange banks are all foreign. On 25th August, 1950 the Foreign Exchange Banks accounted for 36% and the Indian banks 26% of the total deposit liabilities of the scheduled banks[1]

[illegible] hand [illegible] in the [illegible] It is necessary, however, to establish a [illegible]

These banks should be required to keep specified proportions of their assets in the form of investments in Pakistan Government and other national securities. Moreover they should be made to give greater facilities of employment and training to Pakistan Nationals. Adequate safeguard, however, are necessary to prevent foreign banks from exercising strategic control over the economic and financial structure of the country. History has shown how foreign financial control can lead to serious political complications and hence the need for constant vigilence.

19. **Co-operative Banking.**—Co-operative Banks are not Commercial banks though some of them have undertaken commercial functions under stress of necessity since the partition. We have given a whole chapter to the subject of co-operation in its various aspects.[2] Regarding co-operative banking we may note that these banks are organised on a federal basis. In every province there is the apex bank the Provincial Co-operative Bank. With it are linked, directly or through the Central co-operative banks, the primary societies which may be urban or rural. The primary credit societies deposit their surplus funds with the central and provincial co-operative banks and look to the latter for meeting their financial needs. The co-operative banks attract deposits from the general public. The provincial banks serves as bankers to the central banks while the latter act as bankers to the primaries.

The co-operative banks however, have not yet solved the problem of agricultural finances, the purpose for which they were

(1) Report Committee on Industry and Trade : ECAFE.
(2) Chapter XII.

primarily created. The co-operative credit movement has only touched a small proportion of the total population. They however, have a considerable scope for work since the old financing agencies in their field have disappeared.

The National Bank when it has spread its net work of branches will be of great service to agricultural finance though it cannot be expected to finance individual farmers. Its resources will be made available to them through the co-operative banks. In the meantime the matter needs detailed study and we are glad a committee is already at work to investigate the field of co-operation. There is a special department—The Agricultural Credit Department of the Resrve Bank of India which has for a long time made special study of the problems of rural credit and have issued several valuable reports. There is no Department of Agricultural credit attached to the State Bank of Pakistan. There is, however, an agricultural credit section of the Banking Control Department of the Bank. This section with an Agricultural credit officer in charge deals with Co-operative Banking and Agricultural Credit. The section is carrying out a general study of the problem of agricultural credit. A questionaire has already been issued and forwarded to all Provincial Governments to collect necessary data on matters concerning agricultural credit.

The co-operative banks have done valuable service since the partition in the field of commercial banking. They being under the jurisdiction of the provinces are not under the disciplinary control of the State bank and hence the bank cannot adequately supervise their activities specially regarding the supply and use of money. For the sake of a unified control of monetary and banking policy it is necessary that measures should be taken to bring these co-operative banks also under the purview of the State Bank.

20. **Industrial Banking.**—The absence of Industrial Banking has always been the weakest point in the economic structure of the Indian sub-continent. Industries require locking up of capital for long periods and ordinary banks are not in a position to supply industrial finances, because by the nature of their business they have to keep their resources comparatively liquid. The Central Banking Enquiry Committee recommended that India should follow the model of German banks in this respect. In Germany Commercial banks play an important part in financing industry. They provide initial capital which is later offered to the investing public. In some cases they distribute

the risk among themselves by joining together in a *Konsortium*, pledging themselves to accept a certain portion of the issue. Such traditions, however, were absent among Indian Banks, which concentrated on commerce rather than industry. In India the Managing Agency system played a great part in managing, controlling and financing the leading industries. Most of the Managing agencies, however, were foreign concerns and the system later lost its prestige.

The idea of establishing an industrial corporation to which part of the capital should be contributed by the Government in India found favour even before partition. Since the partition such a corporation has been formed in India as well as in Pakistan.

The Pakistan Industrial Finance Corporation Act was passed in February 1949. The corporation was floated in July 1949 with a share capital of Rs. 3 crores of which 51% was contributed by the Government of Pakistan and the rest was left for the public. The portion left for the public could also be subscribed by Provincial Governments, Government of Acceding States, State Bank, Scheduled Banks, Co-operative Banks, and Insurance companies. Upto now only Rs. 2 crores worth of capital has been called up. The Corporation is managed by a Board of Directors majority of whom including the Managing Director are nominated by the Government of Pakistan and the rest elected by share-holders. The main business of the Corporation is to provide medium and long term finance for the development of industries It has bean empowered to guarantee debentures floated by industrial concerns provided they are payable within a period of 20 years. It cannot, however, guarantee or grant loans of value exceeding 7½% of its paid up capital to any single concern. This can be done with the special permission of the Government of Pakistan but only upto a maximum limit of Rs. 30 lakhs. The Corporation also has the power to raise capital, when necessary, by issuing debentures or by accepting deposits. The Government of Pakistan provides guarantees of (*a*) loans and debentures issued by the corporation (*b*) a prescribed minimum dividend to share-holders and (*c*) against losses incurred by the Corporation. The Corporation has already started its business and upto 30th June 1950 had advanced Rs. 69,50,000 to industrial concerns.

21. Post Office Saving Banks—The post office saving banks do not finance industry, agriculture, or commerce, but are important banking institutions because they give opportunities to small income groups to save and develop saving and banking

habit, among themselves. But for them small and scattered savings of the people would have never assumed substantial sums for national use. Since they are scattered all over the country they provide barking facilities to area which would not have been easily brought within the network of the ordinary banking system. The total number of saving banks offices in Pakistan has been estimated at 2,187 and they held on 31st May, 1950 Rs. 30.5 crores as deposits. These deposits are a part of the unfunded debt of the Government of Pakistan. The annual increase in these deposits, however, is not large, *i.e.* about Rs. 1.3 crores during 1950-51.

The sale of Pakistan National and Defence Savings Certificates is another device for encouraging small savings. Their sale was estimated at Rs. 1 crore for 1949-50 and Rs. 1.2 crores for 1950-51. It is necessary to intensify efforts to encourage small savings in the country.

22. **Post Partition Banking Trends**—The table given below indicates the trends in the position of Scheduled banks of Pakistan since the partition :—

(In crores of rupees)

Date	Demand Liabilities.	Time Liabilities.	Cash.	Balances with State Bank.	Advances.	Bills discounted.
22-8-47	65	39	5.0	N.A	44	1.32
26-12-47	80	26	4.0	N.A	37	1.00
23-4-48	83	19	4 0	N.A	37	0.82
16-7-48	91	16	3.2	23	24	0.42
24-12-48	84	17	4.0	12	40	1.03
22-4-49	87	18	3.6	16	42	2.03
29-7-49	89	18	3.2	16	41	2.39
23-12-49	90	20	3.3	21	41	2.14
21-4-50	99	20	3.6	9	54	2.66
21-7-50	100	25	3 7	11	44	3.75
22-12-50	93	23	3.2	9	71	4.37
5-1-51	96	23	3.6	8	74	4.88
22-2-51	97	22	3.7	9	80	6.45
+increase —decrease						
16-7-48 over 22-8-47	+26	—23	—1.8	—	—20	—0.90
16-2-51 over 16-7-48	+6	+6	+0.5	—14	+56	+6,03
16-2-51 over 22-8-47	+32	—17	—1.3	—	+36	5.13

Thus it will be seen that during the first year after partition banking in Pakistan received a serious set back due to the general dislocation of economic life that followed in the wake of Partition. There was a steady increase in the demand liabilities and a fall in time liabilities, cash, advances and bills discounted. This indicates contraction of the business of the banks and accumulation of idle funds kept at the command of the depositors This contraction of business is explained by the exodus of non-muslims who had almost a monopoly of the trade and industry of the country. The gap thus caused was not filled by the refugees who took time to settle down in their new homes The increase in demand liabilities was persumably due to the money deposited in current accounts by the refugees who did not wish to lock their funds up for long periods under conditions of their unsettled life. The time deposits were presumably depleted on account of the migration of the Non-Muslim investing classes.

It would be instructive to compare the trends in Pakistan with those in India during the same period. This comparison is indicated by the following table :—

	Rs. crores Pakistan			Rs. crores Indian Republic		
	22.8.47	16.7.48	%change	22.8.47	16.7.48	%change
Demand liabilities	65	91	+40	625	688	+11.1
Time Liabilities	39	16	−39	314	314	no change
Cash	5	3 2	−36	36	37	+ 2.8
Advances	44	24	−45.5	359	405	+12.8
Bills discounted	1.32	0.42	−31.8	15	15.7	+ 4.6

Thus demand liabilities of the Indian Banks changed by a much smaller percentage and time liabilities were maintained unchanced. Cash advances and bills discounted all increased. Thus although there was a slight tendency towards liquidity preference, on the whole business activity in India showed an increase as contrasted with conditions in Pakistan during the period under review.

The comparatively favourable position of India was natural in view of the fact that the disorganisation caused by disturbances affected a much smaller proportion of the total area in that large country compared with Pakistan. Moreover there was no exodus from that country of people engaged in banking and other industrial and commercial pursuits. The Muslims that moved out were in the main either small artisans or agriculturists.

From the latter half of the year 1948 things in Pakistan began to improve. The gaps in the business world left by the migrations began to be filled up. The remaining banks resumed their business. The State Bank was established, the co-operative banks were active and thus there was a gradual revival of economic activity[1]. This is indicated by the gradual increase in time liabilities and sloving down of the rate of increase in demand liabilities and particularly of the very significant increase in advances and bills discounted.

The fall in cash and especially the balances with the State Bank also indicate that funds instead being kept idle have been increasingly used for purpcses of active investments.

It should be noted that according to law the scheduled banks have to keep with the State Bank of Pakistan as balances 5% of the demand and 2% of their time liabilities. On 16th of February 1951 on the basis of these liabilities the banks should have kept a minimum of Rs. 5.26 crores. Actually they had kept Rs. 9.03 crores *i.e.* Rs. 3.77 crores more than the statutory minimum. Thus the reduction of these balances in no way shows the weak reserve position of the scheduled banks. It only shows greater avenues of investments available in the country.

The banking trends during the last two and a half years compare favourably with India as the table given below shows :—

	Pakistan				Indian Republic			
	16,7.48	16.2.51			16 7.48	2.2.51		
	Rs. crores	Rs. crores	% change		Rs. crores	Rs. crores	% change	
Demand Liabilites	91	97	+6.6	+11.2	688	616	−10 5	9.8%
Time Liabilities	16	22	+37 5		314	288	−8.2	
Cash	3.2	3 7	+15.5		37	34	−8.2	
Advances	24	80	+233		405	502	+24	
Bills discounted	0.42	6.45	+1436		15.7	12.7	−19.0	

Thus total deposits increased in Pakistan by over 11% and decrease in India by about 10%. Time liabilities increased in Pakistan at a much higher rate (by 37.5%). This is partly due to the low figure to which they had fallen by July, 1948. The most remarkable increase, however, has been in advances and bills discounted in Pakistan as contracted with a much smaller

(1) The increase in business activity is also indicated by the fact that while the total value of cheque clearance through Karachi Lahore and Dacca Clearing Houses was Rs. 9.96 crores on 11th March, 1949, it was Rs. 15.45 crores on 9th February, 1951, an increase of 70% in two years. The magnitude of bank clearance however is still very low.

increase in advances and a fairly heavy fall in bills discounted in India. In absolute terms while in Pakistan advances increased by Rs. 50 crores, in India they increased by 97 crores (only by 22 crores upto 5th January 1951) in spite of the much greater magnitude of total Transactions in India compared to Pakistan. Thus it would seem that comparatively the tempo of economic activity in Pakistan has been progressing at a higher rate than in India. This, however, is partly due to the fact that Pakistan has started from a lower base than India but this should not undermine the fact that Pakistan's economy has much sounder and healthier foundations.

23. Inadequate Banking facilities in Pakistan.—That recent banking trends have been favourable should not blind us to the basic fact that banking facilities in pakistan are extremely inadequate for the needs of the country. Even compared with India, which is also regarded as quite backward in this respect, our position is far from satisfactory.

The following table compares banking offices in India and Pakistan before and after partition :—

	Before Partition 31-3-47			After Partition 30-6-1948		
	Total	Pakistan	%share of Pakistan	Total	Pakistan	%share of Pakistan
Scheduled Banks:						
Registered offices	81	13	16.0	85	3	3.5
Total Offices	3,495	633	18.1	3,403	447	13.1
Non-Scheduled Banks:						
Registered offices	751	148	19.6	751	120	15.9
Total offices	3,498	704	20.1	3,074	475	15.4
Exchange Banks	79	19	22.9	82	19	23.1

It will be seen that before partition Pakistan had an adequate share of banks on the basis of population except in the case of registered offices which were only 16% of the total against about 19% of population which lived in Pakistan areas. After the partition the Registered Offices almost all disappeared from Pakistan and other offices were also seriously curtailed. The only exception was in the case of exchange banks which being almost entirely foreign owned did not leave the country.

The distribution of the banking offices between East and West Pakistan on 30th June, 1948 were as under :—

	Total Pakistan	East Pakistan	West Pakistan	% in West Pakistan
Scheduled Banks:				
Registered offices	3	—	3	100
Total offices	447	121	326	73
Non-Scheduled Banks:				
Registered offices	120	102	18	15
Total offices	475	315	160	34
Exchange Banks	19	3	16	85

Thus about three quarters of the total offices of scheduled banks and 85% of those of exchange banks are located in West Pakistan. On the other hand 85% of the registered offices and about two third of the total offices of non-scheduled banks are located in East Pakistan. On the whole, therefore, West Pakistan is comparatively better provided with banking facilities as compared to East Pakistan. This is quite understandable because West Pakisan is more inbanised and more developed industrially and commercially.

To come back to comparison with India, the number of offices do not accurately reflect the relative banking facilities available in the two countries. Below are compared figures of paid up capital and reserve of scheduled banks located in India and Pakistan respectively before and after partition.

Paid up Capital and Reserve (In crores of rupees).

	Before Partition 31st Dec. 1946	After Partition 31st Dec. 1947
India (undivided)	55.96	59.34
Pakistan	5.25	0.82
Percent Pakistan	9 40	1.30

Thus before partition paid up capital and reserve of Scheduled Banks in Pakistan was about 10% of the all India total and after partition this was reduced to about 1·5%. This shows that the average size of the scheduled bank in Pakistan was much smaller than the average size of those in India.

The same story is told by the figures relating to deposits, advances and bills discounted of the scheduled banks in

the two countries. Of the total of Indo.Pak figures the percent shares of Pakistan was as follows :—

	Percentages on 22-8-47	on 30-12-49	on 1-5-51
Demand Liabilities	9 4	13.3	13.9
Time Liabilities	11.4	7.3	7.5
Total deposits	10.1	11.5	11.9
Cash	12.2	9.5	9.8
Advances and Bills discounted	10.5	9.7	15.2

Thus in all these respects Pakistan's share is comparatively to its population much smaller than India's. This shows a much lower *per capita* business in Pakistan. It is, however, encouraging that the share of Pakistan in Bills discounted and advances has increased from 10 5% to 15.2% since the partition

Another indication of the magnitude of business activity is clearing house returns There were only four clearing houses in Pakistan at the time of partition. Now only two centres (one at Lahore and the other at Karachi) are working Below are given annual clearing house returns for the Indo-Pakistan sub-continent and the percentage shares of Pakistan areas :—

	Indo-Pak Rs. crores.	Pakistan Rs. crores.	% share of Pakistan.
1938-39	1921	43	2.2
1946-47	6717	359	5.3
1947-48	6474	324	5.0

Thus though during the war Pakistan's share improved but comparatively to India business activity in large towns has been much lower in Pakistan.

Our conclusion therefore is that Pakistan is very inadequately equipped with banking facilities and the *per capita* volume of business also is much lower in this country than in India. Things, however, are improving though very slowly.

24. Effect of Partition on Insurance.—Like trade, industry and banking insurance was also mainly in the hands of non-muslims in India. Further, the Pakistan areas had in proportion to population a much smaller number of insurance companies doing business as the following table reveals :—

Location of Head Offices of Insurance Companies 1946.

		Indian Union	Pakistan	Percentage share of Pakistan in the total.
Indian Companies	...	218	21	8·9
Non-Indian Companies	...	99	2	2.0
All Companies	...	317	23	6.8

Statistics regarding the location of branch offices are not available, but as far as Head Offices are concerned Pakistan's share was about one-fifteenth of the total as against the population proporation of one fifth.

Partition and the disturbances which accompanied and followed it affected insurance companies in two ways. Firstly, due to the great loss of life and property that occurred the companies had to face heavy claims on them. Secondly, the movement of non-Muslims, who were controlling this business out of Pakistan dealt a heavy blow to this aspect of our economic life as it did to so many others. Many of the insurance companies transferred their offices and assets from Pakistan to the Indian Union. The result may be seen from the table given below.

Location of Head Offiices of Insurance (Indian) Companies.

Date	Indian Union	Pakistan	Total
30th September 1946	218	21	239
15th November, 1947	236	9	245
7th October, 1948	334	6	340
Change (number)	+16	−15	+1
Change (per cent)	+73%	−71%	+.4%

Thus over a period of two years while total number of companies increased by 4% and companies in the Union by 7.3%, their number in Pakistan decreased by 71%.

25. Inter-Dominion Agreement of December 1947.—With the movement of Insurance Companies' offices and assets from Pakistan the interests of the policy-holders in Pakistan were bound to be in jeopardy. To safeguard these interests, the Pakistan Government entered into an agreement with the Indian Government in December, 1947. According to this agreement :

(*a*) Companies which had moved their head offices from Pakistan were required to advise the Reserve Bank through the Government of India that 15 per cent. of the statutory deposits made by them with the Reserve Bank were to be deemed to be held on account of the policy-holders resident in Pakistan, until the Superintendent of Insurance had determined the appro-

priate percentage of policy liabilities pertaining to persons resident in Pakistan.

(b) An undertaking was given on behalf of these insurance companies that their assets, other than statutory deposits with the Reserve Bank of India, will not be reduced or withdrawn from Pakistan to the detriment of Pakistan policy-holders.

(c) The Pakistan Government on their part agreed to accord all reasonable facilities, in respect of protection and investigation of claims, for their representatives who had to come to Pakistan areas to investigate and appraise claims which had already arisen or which were to arise in future. The Government of the Indian Dominion also agreed to accord reciprocal facilities. It was further agreed that both the Governments would advise the companies concerned to send out agents and investigators, as far as possible, belonging to communities which *prima facie* would not require protection.

(d) As regards complaints of delay in settlement of claims, it was decided that such claims should be referred to the Ministry of Commerce in each Dominion. Such claims, however, it was recognised, could only be settled after the companies concerned got their records, equipment etc.

(e) For the removal of records, equipment, etc. permission of the Custodian of Evacuee Property was necessary to whom application was to be made in this respect after instructions were issued to the Reserve Bank regarding the 15% deposit referred to above.

In spite of this agreement Indian Companies showed no interest in continuing their business in Pakistan. Foreign Companies established in Pakistan, however, began to expand their business. Some of them which had only branch offices in Pakistan took steps to organise separate head offices in Pakistan. The gap caused by the exodus of non-Muslim trained staff was filled to a fair degree by recruitment of Muslims, British and other non-Hindu and non-Sikh minority people.

26 The Riot and Civil Commotion Ordinance 1947 — To cover riot risks the Pakistan Government promulgated an Ordinance in December 1947—"The Riot and Civil Commotion Ordiance". It was initially to apply to cotton ginning and pressing factories and was necessitated by the abandonment of such factories by owners after the Punjab disturbances. It was intended to reassure the owners against any future risks. The Ordinance requird all persons owning or having an interest in a factory, or in the stocks therein including factory buildings to

insure all property insurable. Heavy fines were prescribed for the contravention of the provisions of the Ordinance.

27. Policy with Regard to Deposit of Securities : Under the Standstill Agreement with India *status quo* was to be maintained in respect of Insurance Companies functioning in the two Dominions It was expected that Pakistan would have its own arrangements from April 1948. With the ending of the Stand-Still Agreement, therefore, Pakistan adapted the Indian Insurance Act of 1938 and set up a separate office of the Superintendent of Insurance to administer the Act. It became necessary now to clarify Pakistan's stand with regard to the deposit of securities by the Insurance Companies operating in Pakistan.

Under Section 7 (1) of the Act of 1938 insurance companies were required to keep deposits with the Reserve Bank of India for various classes of business carried on by them. When the Act came to apply to Pakistan the companies were to be under obligation of duplicating their Indian deposits in Pakistan. But since the volume of business in Pakistan had not increased the Pakistan Goverment by amending the Act required the companies to deposit only half of the amount specified in the original Act.

The Indian Companies, however, were reluctant to comply with this condition. This matter was brought before an Inter Dominion Conference held in April, 1948 at Karachi. During the Conference Pakistan insisted that deposits should be made in Pakistan securities. Naturally, Pakistan being a new state required large amounts of capital. Indian delegates, however, did not accept this position. Ultimately a compromise was reached according to which new business in Pakistan was to be done in Pakistan currency and undivided returns were to be kept as hitherto till the end of the year (1948). From 1949 separate accounts for Pakistan were to be shown. This was however only a partial and interim solution.

To give further facilities to Indian Companies the Government of Pakistan had announced that besides the securities of Pakistan Central and Provincial Governments the following other securities were also to be regarded as approved securities :—

(*i*) Securities charged on the revenues of Pakistan Central and Provincial Governments or guaranteed fully as regards principal and interest by them. (*ii*) Pakistan National Savings Certificates (*iii*) Any debenture or other security for money issued under the authority of any Act of a legislature in Pakistan or by or on behalf of a Port Trust or Municipal Corporation. (*iv*)

Securities of the undivided Government of the Punjab and Bengal.

The real hitch, however, was that while about 150 branches of Indian Insurance Companies were operating in Pakistan, only about half a dozen Pakistan firms were engaged in business in India. The stake of Indian Companies in Pakistan was much larger than that of Pakistan Companies in India. Then there was the general antipathy of non-Muslim interests towards Pakistan.

28. Indo-Pakistan Agreement Dec. 1948.—In December, 1948 the interim arrangement of April, 1948 was replaced by an agreement arrived at between the two countries which defined the terms and conditions on which Indian Life Insurance Companies could function in Pakistan. The main provisions of this Agreement were as under:—

(*a*) Under the Pakistan Insurance Act Indian Companies doing business in Pakistan were required to keep a certain portions of their assets in specified securities. According to the new agreement these investments were to be spread over as follows: 25% in Government of Pakistan securities, 15% in Government of India securities and 15 percent in Pakistan approved securities as defined in the previous section above. The Government of Pakistan agreed to allow a period of four years to Indian Insurance Companies to adjust their investments accordingly.

(*b*) To inspire confidence among the policy holders these investments were to be held in trust and were to be located in Pakistan. The State Bank of Pakistan was to be the trustee unless by agreement some other trustee was appointed. Arrangements were to be made for the realization of interest on securities held in trust.

(*c*) Indian Companies withdrawing from Pakistan without doing fresh business were to be treated in the same way as non-Indian Companies in British India. Those withdrawing after doing further business were not to be freed of all obligations under the Pakistan Insurance Act. The Pakistan Government however, gave an assurance that in case more adverse conditions were to be imposed sufficient notice would be given and these conditions would not be imposed on companies which had withdrawn before.

(*d*) The two Governments undertook to persuade insurance companies to make payment claims on life policies upto Rs. 2000 without insisting on succession certificates but on the production of a guarantee or indemnity from two sureties. Succession

certificates granted in one country were to be treated as valid in the other.

(e) As regards the cases of policies which lapsed due to non-payment of premium on account of disturbed conditions, the governments undertook to persuade the Insurance Companies in their respective jurisdictions to treat them sympathetically. Policies lapsing before the end of 1949 were to be treated liberally and revived. The Companies, however, could insist on a medical examination and also charge interest not exceeding 6% on arrears of premiums.

29. Indian Evacuee Property Ordinance of June, 1949. In June, 1949 the Indian Government under the Evacuee Property Ordinance classified insurance policies of evacuees as evacuee property against all international convention and canons of justice. The policies were vested in the custodian of Evacuee property. As a result policy holders in Pakistan were hard hit. They were not able to assign their policies or take loans against them nor could they or their heirs receive payments when the claims matured. The Insurance Compsnies requested the Government of India not to include insurance policies in the scope of the Ordinance, partly because they did not wish to lose their premium income from Pakistan and partly out of fear that the Pakistan Government might treat the immovable property of the Indian Companies as Evacuee property to compensate the loss to the policy holders in Pakistan. After devaluation a further difficulty arose regarding the ratio of exchange according to which premiums from Pakistan were to be remitted to India and claims received. This difficulty has been met by a decision on the part of the Indian Insurance Companies Association that the payment of premiums and policies should be in Indian rupees subject to adjustments when the question of exchange was settled.

30. Internal Organisation of Insurance in Pakistan : Whatever the difficulties as ragards inter-Dominion relations in this matter, internal organisation of this business had to be looked after. Steps were therefore taken to complete arrangements for the issue of licences to Insurance Agents and also regarding the procedure of registration of companies.

As regards the issue of licences it was decided to grant antedated licences to such agents who applied for the same before July 15, 1948. Regarding procedure for registration it was announced by the Superintendent of Insurance, that the companies should submit their applications for registration supported by

documents, statements and certificates, together with proper receipts for payment of the registration fee as prescribed in the Act.

The companies were also required under Section 7 ofthe Act to have statutory deposits with the Government on the basis as specified with reference to various kinds of insurance business.

The position with regard to Provident Insurance Societies was also made clear. It was announced that all such societies, registered under the Insurance Act 1938, or the Provident Insurance Societies Act, 1912, were required to register themselves again or renew their registration in Pakistan, before June 30, 1948

Thus Pakistan is already a long way on the road to putting her house in order with respect to Currency, Banking and Insurances.

APPENDIX I

Balance Sheet of State Bank of Pakistan and Reserve Bank of India

Week ended January 5, 1951

		State Bank	Reserve Bank
BANKING DEPARTMENT.			
LIABILITIES.		Rs. (in 000)	Rs. (in 000)
Capital paid up	...	3.00,00	5,00,00
Reserve Fund	...	3,00,00	5,00,00
Deposits :—			
(*a*) Central Government	...	62,75,49	1,62.69,68
(*b*) Provincial Government	...	4,66,66	10,52 75
(*c*) Banks	...	9,07,47	57,06.92
(*d*) Others	...	3,29,75	58,92,31
Bills payable	...	12,92	6,81,97
Other Liabilities	...	3,43,36	11,41,98
Ttoal	...	89,35,65	3,17,45,61
ASSETS			
Notes—		6,15,63	8,06,39
Rupee Coin—		—	5,29
Subsidiary Coin—			1,62
Pakistan	...	—	
India	...	37	
Bills Purchased and Discounted :—			
(*a*) Internal	...	—	50,00
(*b*) External	...	—	—
(*c*) Government Treasury Bills	...	5,67,53	3,67,07
Balances held outside Pakistan including cash, short term Sterling securities and Balances with R.B.I.	...	48,61,26	1,99,09,77
Loans and Advances to Governments		—	4,85,00
Other Loans and Advances	...	9,59,50	4,28,39
Investments	...	15,17,52	91,41,50
Other Assets	...	4,13,84	5,50,58
Total	...	89,35,65	3,17,45,61

ISSUE DEPARTMET.

LIABILITIES.	S. B. Rs.	R. B. Rs.
Notes held in the Banking Department ...	6,1563	8,06,39
Notes in circulation ...	1,97,05,96	11,74,93,31
Total Notes Issued ...	2,03,21,59	11,82,99,70
Total Liabilities ...	2,03,21,59	11,82,99,70

ASSETS.

	S. B.	R. B.
I. A. Gold Coin and Bullion :—	4,20,71	40,01,71
Silver Bullion ...	—	—
Sterling Securities ...	62,12,28	6,38,15,11
Government of India Securities ...	13,26,89	
India Notes Representing Assets receivable from the R.B.I. ...	29,99,14	
B. Rupee Coin ...	4,27,98	58,20,26
Govt. of Pakistan Securities ...	80,09,84	
Internal Bills of Exchange and other Commercial Paper ...	—	
Held with the R. B. I. Pending Transfer ...	—	
II. A. Gold Coins and Bullion	19.02	
Sterling Securities ...	3,06,12	
B. Rupee Coin ...	29,51	
Govt. of India Securities ...	70,10	4,46,62,62
Total Assets ...	2,03,21,59	11,82,99,70
Ratio of Total of A to Liabilities ...	58.33	57.326%

APPENDIX II

Balance Sheet of the National Bank of Pakistan as on 31st March, 1950

LIABILITIES		RUPEES
Authorised Capital	...	6,00,00,000
Issued and Subscribed Capital	...	1,55,50,000
Called up Capital	...	38,87,000
Reserved Liability of Shareholders	...	1,16,82,500
Deposits	...	1,51,33,000
Borrowings from S. B. of Pakistan	...	2,03,41,887
Inter-Bank Call Loans	...	1,25,00,000
Sundries	...	1,85,861
Profit and Loss Account	...	1,564
ASSETS		
Investments	...	1,36,17,050
Cash credit and overdraft	...	3,63,22,896
Preliminary expenses	...	99,962
Dead Stock	...	2,05,502
Sundries	...	22,652
Cash in hand	...	11,89.893
Balances with other banks	...	5,65,001
Total working Funds	...	5,20,50,701

CHAPTER XXIII

Price Trends.

1. Introduction : Prices play a very fundamental part in the working of an economic system, especially a system which involves freedom of enterprise. They regulate prodution, consumption, exchange and distribution of goods and secrvices. On the production side they are the indicators of the channels into which the various productive resources must be allocated. It is they which guide the activities of the producers by helping them on the one hand in assessing the costs involved and on the other in measuring the gross incomes that they can expect from their respective enterprises. To the consumers, again, they are a guide in the matter of spending their incomes over a variety of alternative consumer's goods available. Further they help in the adjustment of the aggregate demands of the community to the available aggregate supplies and thus help in the rationing of the supplies in accordance with the pulls exercised by the consumer's demands.

By controlling the movements of prices the community can control the whole working of the economic system. Thus prices on the one hand are an expression of the working of economic forces within a country and on the other they are an agency through which the working of those forces can be controlled and diverted into predetermined channels. In a planned economy also prices can be used as an effective organ for carrying out the purposes decided upon by the planning authority. In a free economy, prices control economic forces and in a planned economy the working of economic forces is controlled by exercising control over prices.

The study of prices, therefore, is one of the basic studies in Economics,

2. Influences Determining Prices : Broadly speaking there are two sets of influences which determine price movements. On the one hand there are the institutions and policies which regulate the flow of purchasing power into the hands of the people whether as currency or credit instruments and the rate at which these instruments change hands in the process of serving

as media of change. The Central Bank as regulated by the law of the land, is now universally recognised as the currency authority while the credit instruments are within limits under the control of other banking institutions. The rate of the circulation of these instruments of currency and credit is determined by a large number of factors among which are communication facilities, currency and banking habits of the people, the degree of confidence in the prevailing system of production and finance etc. This is what may be called the supply side of money. As against this, is the demand side for money, which is represented by the amount and varieties of goods and services available for exchange and the rate at which they pass from hand to hand in business transactions.

Disturbances in prices, therefore, can arise either because units of purchasing power have increased in greater proportion than goods and services available in the country for exchange; or assuming that the volume of instruments of exchange have remained constant, there has been a fall in the tempo of production or there has been destruction of goods on account of one reason or another, thus creating relative scarcity of exchangeable commodities. These influences may affect both the money and the goods sides either in the same direction or in the opposite directions. Thus they may either neutralise their respective effects on prices or accentuate them.

It is through the controlling of these influences coming from either the supply or the demand side that it is possible to control price movements.

3. Social Consequences of Price Fluctuations: It is necessary for the healthy and smooth working of an economic system that price movements should be kept within reasonable limits. This is so because abrupt changes in prices create far reaching distortions in the economic system and result in redistribution of real resources among the people involving injustices to some classes and extra gains to others. This is so because money is a measure of values as well as a medium of exchange. Rising prices mean fall in the value of money and hence reduction in the resources in possession of those whose incomes do not rise in the same proportion as the rising prices. Similarly a fall in the level of prices increases the command over resources of those whose money incomes do not fall in the same proportion as the fall in prices. Thus rising prices are unfavourable for people with fixed incomes and falling prices are a source of gain to them. To the business community rising prices are of great advantage, because they enable them to command more

money at the time of selling their goods and services as compared with the money they spend as costs of production of those goods and services. The effect of falling prices is just the opposite so far as these people are concerned. Apart from these distributive effects, too frequent and too abrupt changes in price levels upset all calculations of those who are engaged in productive enterprises, thus creating a general sense of instability and insecurity in the economic system, which is most deleterious to economic progress.

4 Indian Prices During the 19th century.—Until the coming of the railways and establishment of trade links between different parts of the Indian subcontinent one can hardly speak of any general price level existing in this part of the world. Even when speaking of a single commodity we can only refer to local prices which showed enormous disparities. Moreover, price statistics during the first half of the century were almost entirely absent. On the whole, however, we are told that there was a downward trend in prices during the first half of the century. After 1850 prices in India began to rise in sympathy with prices in Europe, this trend having been caused by gold discoveries in 1848. Gold was diverted to India after 1856. Prices in India, however, varied from year to year and locality to locality in response to variations in harvests[1].

Between 1861 and 1865 due to the American Civil War and consequent diversion of British demand for raw cotton from America to India, cotton exports brought in exchange greater imports of gold and silver. There was an increase in the circulation of the currency and in the incomes of the people. The average rise in, prices has been estimated at 50 % during this short period.[2] Commodities that rose above this average were rice, ragi, cotton, silk, oil seeds, wool etc.

During the next seven years 1866 to 1883 the prices fell, the average fall being to the extent of over 30 percent. The rise was mostly confined to food grains and raw sugar. *The* main factor was the great famine of 1876—78. The *fall in* general prices was partly due to the reaction against the *rise in*

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(1) "In the town of Hadpur Hazara" says Brij Narain, "the *price of* wheat in 1852 was a little less than 8 annas a maund ; in 1853 *it rose to a* rupee ; in the following year to 2 rupees .....Pakpatan, Dipalpore and *Hujra* are in the same district (Montgomery) but in 1849 wheat sold at 42 seers *per* rupee in Pakpatan while the average quantity, obtainable for a *rupee in* Hujra and Dipalpore was 23½ seers." *India Before the Crises.* P. 236

(2) Currency and Prices in India : Vakil and Muranjan. P. 312

the earlier period when the artificially created demand for Indian cotton disappeared after the American Civil War ended. Partly the falling prices in India were a counterpart off all in prices in Europe especially after 1874 due to increased production as a result of technical developments on the one hand and adoption of gold standard as rest of expansion of silver currency showing down in the development of banking etc. on the other. Due to the fall in the gold price of silver, however, the decline in prices in India was arrested earlier than in Europe. Moreover the famine of 1876 to 1878 led to increased circulation of rupees in the face of lower production.

The ten years from 1883 to 1893 again showed a rising prices trend. Prices rose on the average to the extent of 33 %. Production of silver had definitely outstripped the production of commodities by 1885. Apart from local scarcities the seasons were on the whole good and one might have expected a fall in the prices especially of food grains but the greater imports of silver put more purchasing power in the hands of the people. There was a considerable increase in the coinage of rupees (by over Rs. 20 crores over the period.

The period of high prices came to end in 1893 and prices fell during the six years that followed, the average fall being 17 %. Food prices rose during this period due to the famines of 1896, 1897 and 1899. But this rise was more than compensated by a fall in the price of raw materials and manufactured goods. Production was increasing more in proportion to the increase in the media of payments. From 1893 onwards Indian mints were closed to the free coinage of silver which put arbitrary limitations on the increase of currency. Circulation fell from Rs. 132 crores in 1893 to 122 crores in 1898.

5—Prices Before World War I. 1899—1914. Prices rose slowly during 1883—1893, and having received a set back during 1893—99, took again an upward turn which became quite rapid after 1905 until the outbreak of the World War I accelerated their pace still more. In 1908 Mr. Ghokhale drew the attention of the Government in the Imperial legislative to the abnormal rise in prices that was taking place. He attributed it to the heavy coinage of the rupee. While the rupees in circulation were estimated in 1898 at Rs. 130 crores, by 1908 Gokhale pointed out there had been a net addition of over Rs. 100 crores and hence the rise in prices. The process according to Ghokhale was that rupees issued by the Government went into the interior and did not flow back to centres of

trade quickly enough. Hence more rupees had to be issued and this resulted in growing inflationary trend in prices The index number of wholesale prices (1873—100) stood at 104 in 1895, at 110 in 1905 and at 147 in 1914

It was to investigate the causes of this rise in prices that Mr. K. L. Datta (an officer of the Finance Department of the Government of India) was appointed In his report (issued in 1914) Mr. Datta attributed the rise in prices to two sets of causes (a) World factors (b) Factors peculiar to India To the former category belonged cause such as increased demand for and decreased supply of staple commodities, increased gold production, destructive wars and increasing armies. These factors influenced Indian prices because India was switched over to the currency gauge of the rest of the world by adoption of gold standard after 1893. Among the causes peculiar to India according to Mr. Datta were shortage in the supply of agricultural products especially food grains (due to population growing faster than production, unseasonable rainfall substitution of non-food fur food crops and extension of cultivation to inferior lands), increase in the demand for these commodities, development of railways and other cummunications of India and lowering of transport cost of sending goods to foreign countries, increased credit and banking facilities and increase in the volume of the circulating medium Mr. Datta further found that the rise in prices in India was greater than in most of the European countries and U. S. A.

The Government of India did not accept Mr. Datta's conclusion that there had been a fall in production of food grains since the canal irrigated area had doubled itself during the period under consideration and the area under non-food crop was too insignificant to have had much effect on food production They attributed the rise in prices to world factors and to increased credit. But the use of credit was not common enough to have significant influence in price As regards the world factors this view does not explain why prices rose more in India than in other countries Dr. Anstay attributed the greater rise in Indian prices to the differential price changes of great groups of commodities caused by factors which operated throughout the world as a whole[1]" Before World War I the world trend was towards a relatively more rapid rise in the prices of food stuffs and raw materials as compared with those of manufactured goods After 1914 the trend was in the opposite direction. Since commodities traded in India were predominent-

(1) V Anstey : Economic Development of India (1929), P. 45?

ly of the food stuff and raw material group while those of Europe belonged to the category of manufactured articles, prices rose more rapidly in India before World War I and less rapidly, compared to European countries, after 1914.

But this argument fails to convince when we notice that prices in agricultural countries like Canada and Australia did not rise to the same extent as they did in India. In fact prices in those countries rose less than in countries like U. S. A. Britain and Germany. It would appear that while individual commodities were influenced by the peculiar circumstances of their supply and demand the common factor operating on all was the increased volume of money in circulation. We are therefore inclined to agree with the explanation offered by Mr. Gokhale. It has been estimated[1] that during the period 1899 to 1913, while production increased by about 43%, currency in circulation increased by 99% as against the rise in general index of prices of 58.4%. This is perfectly in conformity with the formula that "the increase in prices and the production of and trade in goods together should give us the total increase in circulation.[1]

6. **Prices During World War I (1914—18).**—Prices rose during the war in India as elsewhere, but not so steeply until the end of 1916. The index number for 1916 was only 12 percent higher compared to 1913. In fact the prices of local product was lower, the rise being mainly due to imported articles which rose by 24%. There was a steep rise during 1917 but again mostly in imported commoditions which stood 54% higher than prewar. During the last year of the War there was a rapid rise in the general level of prices the wholesale index arising from 121 in October, 1917 to 113 in December, 1918. The greatest rise took place in the case of imported commodities like cotton piece goods, cotton yarn, iron, coal, sugar and Kerosene. Prices of food grains remained low because of the prohibition imposed on their export. Raw materials suffered due to closing of the continental markets due to War. The terms of trade thus moved against the country.

This upward movement of prices was partly due to the political and economic policies of the Government. Huge amounts of materials were purchased for war purposes in the Indian market. Loans aggregating to Rs. 130 were raised and on

1. Vakil and Muranjan : Currency and Prices in India p. 333.
2. Ibid.
3. See chapter XXI section.

the basis of the securities thus created larger credits were issued by the banks. To meet deficits in the Budget, Treasury Bills were issued which further broadened the basis for credit expansion.

As regards individual groups of commodities the main reason for the higher rise in the prices of imports was the difficulties of importation due to loss of markets, high freights, import contro's and general scarcity of consumer goods in the countries of origin due to diversion of production to purposes of war. The exports did not show as much rise because of exports control, prohibitions on food grains and lose of important markets

Prices in India, however, rose less than prices in foreign countries. Normally this disparity would have been corrected by encouragement of exports, discouragement of imports of commodities and greater importation of specie which would have raised prices in India. But import of specie was drastically restricted and exports were artificially limited by Government control. Further the Government purchased its war needs in India at contracted prices which were much lower than the foreign prices e.g. products of textile, leather and iron and steel industries. Finally the exchange policy of the Government also tended to keep prices lower. After 1917 the rise in the price of silver and consequent melting down of rupees forced the Government (who had so far kept to the old parity in spite of the greater demand for rupees) to allow the exchange rate to rise. This rise in exchange also prevented the internal prices to rise to the level they would have done if the rate was kept down at the old level. The under-valued rupees would have stimulated exports and discouraged imports and thus would have resulted in higher internal prices. But the exchange policy of the Government did impart a greater stability to the internal prices.

The net result of these divergent movements in the prices of imports and exports was that the mass of the people particularly the agricultural classes got less for the products in real terms. The commodites they had to purchase like cotton, cloth, iron, kerosene oil, sugar etc, rose more in value than the goods they had to sell. The industrialists as a class were benefitted since they got cheaper raw materials and sold their products at higher prices. The wage earners got steadier and fuller employment though their wages did not rise in the same degree as prices. The salaried classes and the people belonging

to the fixed income group were worse off since their incomes lagged behind the rising prices.

On the whole the war stimulaled economic activities and considerably increased productive capacity in the industrial sector of the economy.

7. **The Post-War Decade 1919—1929.**—For a time even after the end of the war prices went on rising until they reached their maximum in 1920. After that year the prices began to to decline. The Index Number of whole-sale prices (1914=100) fell from 201 in 1920 to 159 in 1925 and 141 in 1929. Indian prices, however, fell less heavily than prices in U.K. and much less heavily than in U.S.A. The British Board of Trade Whole-sale Index number (1914=100) fell from 295 in 1920 to 140 in 1928 and the Index Number of American prices (1913=100) 226 in 1920 to 97 in 1928.

The fall in world prices during the post-war decade was due to several factors. Among these were a reaction against war time inflation, deflationary policies followed by certain Governments in their attempts to restore pre-war exchange ratio, war exhaustion and lower consuming power of the people in the face of increased productive activity.

The fall in the prices in India was partly in sympathy with world prices and partly it was due to the policy of deflation and currency contraction followed by the Government Greater increase in imports than exports due to war time pent up demand created on adverse balance of trade which was met by the sale of Reverse Councils[1]. Currency was contracted to bring the exchange rate to 1s. 6d and to maintain it there.

Prices, however did not fall uniformly in the various commodity groups because factors influencing individual commodites were also at work for instance the price of food grains fell more than the price of goods like sugar, tea and cloth. Sugar the price of which had risen the highest during the war maintained its price at a high level the longest except as regards cotton cloth which maintained itself at a high level still longer, resulting in a drastic fall in its consumption. While cereals became cheaper due to good harvests other food stuffs like milk, ghee and vegetable oil maintained comparatively higher levels.

The prices on the whole fell slowly though steadily during this period. The fall, however, became precipitate after 1929 which ushured in the period of world wide Depression.

(1) See Chapter XXI.

8. The World Wide Depression (1929-1939). We have called the whole decade before the out break of the World War II as the period of Depression because prices on the whole remain at low levels during this period. But within the period their were upwards and downwards trends indicating partial recovery and recession. The greatest depression, however, occurred between September, 1929 and March, 1933. Then there was a partial recovery from April, 1933 to August, 1937 followed by a recession which lasted for September 1937 almost right upto the out break of the war in August, 1939.

The world wide Depression was due to a large number of complex causes acting and reacting on each other, partly economic and technical, partly monetary and financial and partly political and psychological. Among the economic causes were *technical and biological discoveries as applied to agriculture* and industry resulting in a rapid increase in production during the decade following the World War I especially in the field of agriculture. The demand for agricultural goods being prov erbially inelastic a sudden increase in supply was bound to depress agricultural prices and incomes inordinately. This fall in the purchasing power of the agricultural masses reacted on the demand for manufactured goods at a time when technical advances in the industrial sectors of the producing countries had increased production potentialities enormously. The industrialists reacted to the falling prices by limiting their productive activities. This slowing down of industrial production in adjustment to lower demand involved large masses of industrial workers in unemployment. This meant still more contraction of the purchasing power and still greater fall in demand for industrial as well as agricultural goods which re-enforced the process of falling prices.

This was the broad pattern in which may be fitted the local details which received colour from reactions of the Governments and the people concerned to these broad influences.

The sudden collapse in the Wall Street (the stock exchange of New York) was due to the realisation on the part of the investors that the abnormal boom in prices of shares and stock that had taken place by autumn of 1929 was not justified by the real earning capacity of the enterprises represented by those shares and stocks. A feverish sale of shares brought down their prices with a bang and ruined many fortunes. This gave a rude shock to the faith of the investing public inside and outside America in the strength and stability of the American economy. This started the process of lower invest-

ment, lower production, lower increase, falling demand, falling prices and increasing unemployment and again lower incomes etc.

As export markets contracted each country tried to reserve its own market, and in the case of Imperialist Powers the markets of territories under their control, to the goods produced by their own economies. While every country tried to export as much as possible to keep their productive system at some level of activity, they adopted policies with a view to exclude foreign imports. This arose tariff walls, exchange restrictions, quota systems, imperial perferences etc all resulting in progressive contraction of both imports and exports, because what are exports of one country are imports of another and you cannot discourage the one without discouraging the other. The net result was a serious contraction in international trade a craze towards self sufficiency and consequent production inefficient and hence wastage of world resources along with contracting production and mounting unemployment. The policy of selfsufficiency was further re enforced and justified by the defected or disgruntled natures of the World War I who were planning another world war to rectify the supposed injustices done to them. Thus economic factors were intermixed with political designs.

Another set of factors complicated the situation still further. The World War I and the Peace Treaty that followed had left the legacy of War Debts and Reparations. War debts were owed by the European Countries to America and Reparations were imposed by the Treaty on Germany to compensate the damages caused to France. The creditor countries, therefore were U.S.A. and France. Since these countries, especially U.S.A. refused to accept payments through the process of the debtors creating an export surplus in their favour, there had to be a flow of gold to settle these debts. This resulted in the concentration of $\frac{2}{3}$ of the world's monetary gold in these two countries mainly in America. This depleted the gold reserves of the central banks in the debtor countries forcing them to adopt policies of deflation. The creditor countries received gold but did not allow it to influence their prices in the upward direction, which latter step would have automatically corrected the position by encouraging imports, discouraging exports and thus resulting in an outflow and redistribution of this gold in the world. The deflationary policies necessitated by this situation re-enforced the downward pressure on prices

due to economic and political causes, already described and deepened the Depression still further.

9 Depression in India.—An important feature of the fall in prices was that the prices of primary products especially agricultural commodities fell most steeply than prices of manufactured goods. This was quite natural because supply can be adjusted to demand much more easily in manufactures than in agriculture. Moreover demand for agricultural goods is much less elastic. In the case of India an additional factor which reduced the net income of the agricultural classes was the rigidity of the costs of production of the agriculturist. In countries where agriculture was mechanised the farmers benefited from the reduction in the cost of his equipment due to the fall in the price of such equipment. But the elements of costs in a primitive economy like India—land revenue, interest on borrowed money, cost of cattle etc. did not come down much. The agriculturist thus suffered in two ways *i.e.*, due to excessive fall in prices of his products and high costs of his production. Apart from this he suffered because the terms of trade turned against him, since the prices of the articles of his consumption fell much less than the prices of articles he had to sell.

[1] This is indicated by the relative fall in the prices of imports (mainly manufactured articles) and exports (mainly agricultural raw materials) :—

Index Number of Wholesale Prices Calcutta series (July 1914=100).

	Exported articles	imported articles	percentage fall compared to Sept. 1929	
			Exports	Imports
September, 1929	133	150	...	...
December, 1931	81	124	39	17
December, 1932	69	115	48	23
March, 1933	65	110	51	27

The fall in the prices of individual Commodities between September, 1929 and March, 1933 was as under :

Commodities	percentage fall	Commodity	Percentage fall
Rice	58	Hides and Skins	50
Wheat	34	Jute manufactures	44
Tea	46	Cotton manufactures	30
Oil seeds	63	Metals	29
Jute raw	58	Sugar	23
Cotton raw	46	All commodities	43

It is clear that the fall was much heavier in the case of agricultural commodities especially raw materials. While prices of agricultural commodites fell by over 50% it is estimated that costs did not fall more than from 15 to 20 percent. This seriously reduced the purchasing power of the agricultural masses. The value of total production fell from Rs. 1,021 crores in 1928-29 to Rs. 474 crores in 1933-34—a fall of 53.6 percent. In consequence the burden of rural debt in terms of real produce got more than doubled. Many agriculturists found it impossible to make both ends meet and lived on past savings through the sale of the gold and silver ornaments of their women folk. Hence the large exports of gold from the country which was an important phenomenon of the period.

After reaching its lowest leval in March, 1933 the index number of wholesale prices steadily rose. In March, 1933 it stood at 82, in March, 1934 at 88 around which level it fluctuated during the year 1934-35. By April, 1936 it had only advanced by two points to 90 and by April, 1937 to 94 and then by a quick spurt it attained the level of 105 in August, of the same year. Thus the rise was slow though steady and recovery was only partial. The disparity between agricultural and industrial prices was to some degree rectified.

This partial recovery during the period from March, 1933 to August, 1937 was mainly due to world causes which increased the demand for Indian raw materials. These causes were depletion of previously accumulated stocks of regulation of production under various restrictionist schemes, currercy devaluation among the countries of the gold block and the cheap money policy followed by way of achieving greater industrial activity. Another factor that was at work was the heavy armament expenditure during the first half of 1937 due to war fear. On the whole no substantial improvement took place in the

economic conditions of the agricultural masses in India. The period was, however, characterised by various kinds of relief measures taken by the Government to assist the agriculturist in improving his economic position. Legislation was passed to relieve the burden of debt and regulate money lending, to improve agricultural marketing and steps were taken under the various schemes of rural reconstruction. A Crop Planning Conference was convened in 1934 but it led to no results. There was agitation for the devaluation of rupee to stimulate exports but the Government stuck to the old ratio.

After August, 1937 the fall in prices ushured in a period of recession. The index [illegible] series as before) fell fr[illegible] 1938 its lowest point of [illegible] point during the followi[illegible] and rose to 100 just before the World War II broke out. Thus after all these fluctuations the price level attained the same position as it had before the out break of World War I. Export prices again fell more than import prices during this recess and batter terms of trade turned against the country.

The recession started from U.S.A. due to a sharp fall in the prices of primary commodities commencing from April, 1937 and gathered momentum in later months. The fall in prices was the result of speculative purchase of raw materials under the fear of prospective shortage. This was re-enforced by gold scare in U.S.A. and warning uttered by President Roosevelt that prices were rising too quickly. The general nervousness caused banks to restrict credit facilities. In India the slump was accentuated on account of the fall in demand on the part of Japan for Indian Cotton due to Sino-Japanese activities. The fall in prices had adverse effects on the balance of trade incomes of the agricultural classes. Public finances were also badly affected and consequently taxes had to be increased and expenditure curtailed through various measures of retrenchment. These measures in their turn adversely affected industrial enterprise and increased unemployment. A few months prior to the war, however, the recession seemed to have spent its force and prices improved mainly due to increasing armament activity. The war in September, 1939 ushured in a new era of rising prices though slowly in the earliar years.

10. Prices During World War II 1939-1945.—[illegible] was a speculative rise in prices after the declaration of [illegible] September, 1939. The very expectation of higher prices [illegible]

prices. The Calcutta Index Number of wholesale prices rose from 115 in September, to 139 in December, 1939, but again came down to 115 by June, 1940. The price level in December, 1940 was lower (129) as compared with December, 1939. Similar trends were shown by the Economic Advisers[1] Index Number started after the outbreak of the War. The general average of this series (weak ending August, 139=100) was 108.2 for September, 1939, 137.8 for December, 1939 and 115.2 for December, 1940.

During 1941 prices again rose but on the whole slowly. The U. Kingdom had started buying goods and equipment for the troops from the Indian Market. These purchases on the one hand increased currency in circulation and on the other created scarcity of goods. By the end of the year the index of wholesale prices had risen to 143.3—a higher level than the speculative level of December, 1939.

In December, 1941, Japan stepped into the war on the side of the Axis. The sphere of war was not only extended but war was brought to the very doors of India. India became more definitely the arsenel for war supplies to the Eastern theatres. Prices rose rapidly. By December, 1942 the Economic Advisers' Index Number reached almost 185. With the occupation of Burma by Japan, an important source of food grains, (rice) for Bengal became inaccessible and led to the famous Bengal famine[2] of 1943.

The Index Number of wholesale prices rose to 234.8 in December, 1943 and 349.2 in December, 1944. Calcutta Index Number food grains reflects the position more accurate. It rose from 152 in June, 1942 to 447 in 1943.

The General Index Number (Economic advisors) remained in the neighbourhood of the level reached in December, 1944 during the succeeding months with a slightly down ward trend. It stood at 247.8 in March, 1945 and at 244.1 in August of the same year when the war ended. But for the various controls introduced by the Government prices might have risen still higher. We shall come to these controls presently.

The table given below indicates the percentage rise in prices of various groups of prices over the entire war period.

(1) We shall in future refer to this new series which is more scientifically constructed.
(2) For details of the Bengal Famine see chapter XI sections 6—12.

Percentage rise over the last week of August, 1939

Commodities	By Dec. 1942	By Dec. 1943	By Dec. 1944	By March 1945	By Aug 1946
Agricultural commodities	+ 79	+161	+174	+174	+'65
Raw materials	+ 71	+ 89	+1'0	+109	+111
Manufactures	+121	+152	+157	+154	+143
Chief Exports	+ 72	+134	+148	+150	+148
Sugar	+ 70	+ 51	+ 67	+ 67	...
Kerosene	+ 94	+ 78	+ 75	+ 75	...
Cotton manufactures	+314	+281	+185	+174	..
Food articles	...	+143	+131	+134	139
General Index	+ 85	+136	+149	+149	144

It will be seen that prices of agricultural commodities were not left behind those of manufactures in this war as happened in the first world war. The barter terms of trade were on the whole favourable. Prices of cotton manufactures after reaching abnormal heights in 1942 and 1943 came down to the level of agricultural prices in later years presumably due to increase in production. Necessities of life like sugar and kerosene oil kept within moderate limits. The general average of food prices does not reflect their real height firstly because food scarcity was unequally spread due to transport difficulties and secondly because the index is based on controlled prices. Actual prices were much higher.

The strain of high prices on the working classes is indicated by the rise in the index of cost of living :—

Working class cost of living Indices
August 1939=100.

	Bombay	Lahore	Cawnpur.
1941	122	121	122
1943	231	282	306
1945	235	291	308

In spite of the attempts of the government to keep prices down through the institution of controls prices in India rose much more than many of the other countries especially those of the British Commonwealth and U.S.A :—

Percentage rise of prices (July 1939=100)

Country	Fourth quarter of . 1941	1942	1943	1944
India ..	+54	+125	+216	+199
U.K. ...	+55	+ 64	+ 65	+ 70
Canada ...	+29	+ 34	+ 41	+ 41
South Africa ..	+30	+ 39	+ 56	+ 56
Australia ...	+19	+ 34	+ 38	—
U.S.A. ..	+20	+ 33	+ 37	+ 39

Thus not only the absolute rise in prices in other countries was much smaller than India the prices kept more stable in the former countries. This was not due entirely to the smaller increase in the currency. Currency in circulation and deposits increased in other countries also but prices were kept down there through successful control measure. Such measures failed to achieve their objectives in India we shall see.

The table below compares the increase in currency, deposits and prices in India with some other countries :—

(July 1939=100)

		1940 full yr.	1944 4th quarter	1945 4th quarter	1946 4th quarter
India	Notes	132	567	686	705
	Deposits	112	461	509	532
	Prices	120	299	280	295
U. K.	Notes	113	234	263	260
	Deposits	120	238	263	251
	Prices	139	170	173	175
Canada	Notes	163	600	664	644
	Deposits	126	279	308	—
	Prices	114	140	142	...
U. S. A.	Notes	116	469	538	531
	Deposits	118	212	221	217
	Prices	104	139	143	...

Thus the disparity in the increase of the circulating media was smaller than in the rise in prices. This was partly due to the fact that production kept greater pace with increased money in other countries than it did in India and partly it was the consequence of more successful control measures in those countries as already noted.

11. **Causes of War Time High Prices.**—The main causes that led to the excessively high prices in India were: falling off in imports especially of food grains from Burma and cloth from Japan, increase in exports to the war theatres in the Middle East and South East Asia, diversion of productive resources from the civilian sector to the war sector of the economy, transport bottle necks and the hoarding of commodities on the part of producers, middlemen and consumers. This happened at a time when the purchasing power in the hand of the people was increasing at an enormous rate due to the issue of

notes in India against the sterling securities kept in London[1], in lieu of the goods and services supplied by India to his Majesty's Government and the Allies.

That inflation was primarily due to increase in note circulation against sterling securities in London is evident from the table given below :—

Average for[2] :		Notes in Circulation Rs. Crores.	Percentage of gold and sterling securities to notes issued.	Index Numbers August 1939=100 Notes in circulation.	Wholesale prices
August	1939	170	48	100	100
December	"	219	60	129	138
December	1940	226	67	133	114
December	1941	304	78	178	141
December	1942	561	75	329	185
December	1943	822	91	483	285
December	1944	994	93	585	249

Prices, however, did not rise in the same ratio as the increase in notes in circulation. Much of the superfluous money lay idle in the banks.

Scheduled Banks[3]
Rs. Crores.

	Demand Liabilities.	Time Liabilities.	Total Liabilities.	Percentage of advances and Bills to Liabilities.
1939-40	132	102	234	53.5
1942-43	306	104	410	23.8
1943-44	456	142	598	26.9
1944-45	584	194	778	30.2
19th Oct. 1945	658	262	920	28.6
Percentage change during the period.	+400	+157	+293	—46

(1) For details about this methods of war finance please refer to chapter XXI Section 39.

(2) Monthly Statistical Summary : Reserve Bank of India.

(3) Reserve Bank Report on Currency and F[illegible]

If clearing house returns may be regarded as demand deposits in active use the velocity of circulation of the deposits may be indicated by dividing the clearing house returns by demand liabilities. This is done below:

In crores of rupees

Year.	Clearing House Returns. (a)	Demand Liabilities. (b)	Velocity. $a \div b$.
1938-39	1,893	124	15.3
1939-40	2,221	133	16.7
1942-43	2,816	306	9.2
1944-45	5,279	585	9.0

In addition silver rupees were hoarded in large quantities. All these factors did not allow prices to rise in the same proportion to increase in the note issue. It was after the end of the war that this potential purchasing power had its full effect on prices as we shall see.

On the goods side there was a general scarcity of goods of civilian use. The scarcity of goods was due to :—

(*a*) Shortage of food supply. When the war broke out India was importing from 1½ to 2½ million tons of rice from Burma, Malaya and Thailand. With the occupation of these countries by Japan in 1942 these sources were no longer available. The production of rice in the country was lower in 1942-43 than the pre-war level. On the other hand exports of food grains continued to Iraq, Bahrain, Ceylon and South Africa.

(*b*) Shortage in Manufactured goods. This was due both to decreased imports and decreased domestic production. The value of imported manufactures fell from Rs. 94 crores in 1938 to Rs. 40 crores in 1943. The greatest fall was in machinery and Cotton manufactures especially yarn. Decline in the supply of domestic manufactures was due to their diversion for the use of the army. Large amounts of steel, paper, textiles, leather goods and tea was purchased for British, American and Allied needs. Little was left for the civilians. The extent of these purchases may be measured by the accumulated sterling balances in England which stood at Rs. 1292 crores at the end of March, 1945.

12. Remedial Measures Taken by Government—Pumping out Purchasing Power.—To meet such a situation the

following measures could have been taken (a) reducing purchasing power in the hands of the people by higher taxation and floatation of loans and sale of gold etc. (b) Increasing the supply of goods by discouraging exports, encouraging imports and promoting home production. (c) Controlling prices directly by legal and administrative action. (d) Putting restrictions on speculative activities. All these measures were adopted some sooner some later with varying degrees of success. As regards the first, Income Tax limit was lowered from Rs. 2,000 to Rs. 1,500 in 1942-43. Basic rates were increased on all incomes exceeding Rs. 2,000 (beyond the first Rs. 1,500) The rate of super-tax was increased on Incomes over 25,000 by 50% and was further raised in 19434-4. In 1943-44 Corporation Tax was increased, another increase was made in 1944-45.

In 1944-45 while the minimum income tax limit was raised from Rs. 1,500 to 2,000 the central surcharge both on income tax and super tax was increased on incomes above Rs. 10,000 on a graduated basis.

An Excess Profit Tax (E. P. T.) had been Imposed in 1940 on all profits from Industry and business exceeding Rs. 36,000 at a rate of 50% later raised to 66⅔%. Over it was imposed another 13⅓% as (income) super tax and the remaining 20% was to be a compulsory deposit with the government returnable after the war. Thus profits beyond Rs. 36,000 were either taken away as tax or frozen for the duration of the war.

As a result of these measures the percentage of taxes on Incomes to total tax revenue increased from 22.6% in 1938-39 (accounts) to 69.9% in 1944-45 (R.E). The total tax revenue increased from Rs. 76 crores to Rs. 306 crores during the period.

Apart from increasing taxation the government attempted to pump out money from the people by means of issuing various kinds of long and short period loans. Among these were Six Years Defence Bonds (Ist and 2nd secries) Defence Loans (1949—52), Three Years Interest Free Bonds, Third Defence Loan (1951—54), Fourth Defence Loan (1953—55), Five years Interest Free Bonds, Ist and 2nd Victory Loans. To encourage savings among lower income groups the Government issued Post Office Cash Certificates, Defence Savings Certificates. The Government also sold counter parts to repatriated sterling[1]. Between 1940-41 and

(1) About repatriation of sterling see Chapter XXI Section.

1944-45 these loans represented an investment of Rs. 858 crores. In addition there were the various provincial loans (in 1942-43).

Provision was made for certain optional savings schemes in Income Tax and E.P.T. but these schemes did not immobilise much money.

Another method adopted for reducing purchasing power in the hands of the people was the sale of gold. From 17th August, 1943 onwards the Reserve Bank of India (by arrangement with the Bank of England) sold gold in the form of bars of 1,000 tolas each in Bombay. This was done on behalf of the British and the American Governments as a substitute for giving sterling credits in England which method as we have seen resulted in increasing the total money in circulation. American and British purchases were thus financed from the sales proceeds of gold and not from additional notes issued against sterling securities created in London. Later on gold pieces of from 1 to 5 tolas were also sold for the benefit of the small man. No information is available regarding the total amount of gold sold in this way. But the measure had no perceptible influence on prices.

13. **Increasing the supply of goods.**—As regards increasing production this was the only method of effectively meeting the situation. The real trouble was scarcity of commodities especially of basic necessities like cloth and food grains. No amount of deflationary measures could increase the physical volume of food in the country. Higher taxation and loans only affected the purchasing power in the hands of the richer sections. Reduction of such purchasing power might reduce the prices of comparative luxuries like motor cars, radios, and expensive kinds of cloth but it would hardly affect the demand for the basic necessaries of life. Mr. G.D. Birla was right when he suggested that promotion of greater production was the only effective remedy of the situation. But production could not be increased due to serious bottlenecks like lack of fertilizers, capital goods and trained personnel. To relieve the scarcity of cloth the government quite early had devised a scheme for the production of standard cloth for the use of the masses. But several difficulties prevented the production of such cloth in adequate quantities. As regards food the Grow-More-Food Compaign was given great publicity but it produced comparatively insubstantial result.[1] The only way to

(1) For details about the Grow—More—Food Campaign see Chapter XI Section 15-17.

save the people from starvation was to arrange for the importation of food grains at any cost. But shipping and exchange priorities were being given to the war needs. In fact food was being allowed to move out of the country when people were dropping on the streets with hunger. The Government seemed to be indifferent to the impact of the war on the common people "The Government seems to act" runs the statement issued in, April 1943 by no Indian economists "as if it is enough for it to take cate of its own budget deficit, while meeting the needs of the British Government by printing more notes." It was by issuing these notes that the government was draining the country of essential commodities so badly needed by the common people. It took a major famine to arouse the conscience of the Government to the needs of the food situation and to take more effective measures in the form of prohibiting exports of food grains arranging for imports and tightening of controls.

14. **Price control.**—Another method adopted was to introduce a system of statutory price control which implies keeping prices within specified limits by legal action. Price control is necessary in the interest of people of lower income groups who cannot afford to purchase their essential requirements at the level of prices attained in the absence of control. When the commodities concerned are in short supply price control must be accompanied by rationing otherwise it will cause such commodities to disappear from the market and open up possibilities of black marketing. Rationing would further imply control over supply through an effective system of procurement. The more effective, the control over supplies the more successful will be the policy of price control. It is not, however, necessary to control the entire supply. If the State—or its agency—can build up enough reserves to be able to make the commodity available at the specified prices the scheme will work. If, however, the supply is seriously short the entire control of supplies, at any rate within the given area, may be necessary. In that case rationing must accompany price control in the specified area.

When the war broke out there was a sudden spurt of prices upwards especially of imported goods. This was however more of speculative nature. Supplies were withheld in the expectation of higher prices. Steps towards price control were taken quite early to keep prices within reasonable limits. On 8th September—only a few days after the declaration of the war—the Central Government of India, under the powers conferred on it by the Defence of India Ordinance, delegated

to provincial Governments its authority to control prices. Such control was limited only to necessaries of life like food stuffs, medical supplies, kerosene oil and cheap qualities of cotton cloth. Their maximum price was not to exceed 10 % above the price prevailing on 1st Septemcer, 1939. Later in the month the notification was amended and the maximum price was related to cost of production or in the case of imported articles to landing costs. Except in the case of medical supplies salt and kerosene oil, the price of other imported commodities could not be regulated without the previous sanction of the Central Government. Further, price control was made applicable to prices at each stage of the wholesale and retail trade. On the lines thus prescribed by the Central Government several provincial Governments initiated price control measures.

In October, 1939 a Price Control Conference (the first of the serious that followed) was convened which was attended by representatives of provinces and states. Its purpose was to examine the working of the price control measures so far adopted and to chalk out lines of future action. This Conference was of the view that as agriculture in India had not yet fully recovered from the recent depression it was undesirable to take further steps to check the rise in the prices of agricultural products. The principle of fixing prices on the part of the trader on the basis of his replacement costs was also accepted by the Conference. The Second Price Control Conference which was held in January, 1940 recognised the desirability of having a uniform administrative machinery for price control in the provinces and the states. It was further decided that the control of the prices should be the function of the centre and retail prices of provinces. By a notification issued in May, 1940 the basis of price control was modified and was made more elastic than before. The 10% limit over the prices of September 1st, 1939 was deleted and prices were related to cost which were to be determined by careful scrutiny. A further notification issued in June, 1940 empowered the provencial Governments to prohibit the holding from sale goods kept for sale. The system of price control was gradually built up through the process of trial and error as the war advanced. In the case of articles like sugar, matches and kerosene the Government was able to control prices successfully. Difficulties and failures, however, had to be faced in the case of food grains and cloth.

As regards the food grains the first important commodity on which price control was imposed was wheat. On December 5th, 1941 wholesale transactions in wheat above the rate of

Rs. 4—6 per maund were prohibited at Lyallput and Hapur markets. The Provincial Governments were authorised to determine corresponding prices in the other markets. To supervise and co-ordinate price control, operations a wheat commissioner was appointed on December 30th, 1941. On 28th March, 1942 the maximum price was raised to Rs. 5 for Lyallpur and Hapur and Rs. 5—4 for Mirpur Khas ond Nawab Shah (Sind) on 30th April 1942 the Wheat Control Order was issued with a view to regulate and control the movements of wheat from exporting provinces to consuming centres. On 21st May, 1942 the Food Grains Control Order was promulgated which empowered the provincial Governments to licence wholesale dealers in food grains and to require them to submit returns of their transactions On May 28th "Futues" and "Options" in food grains were prohibited. These measures, however, failed to achieve their objectives "because," in the words, Dr Jain, "the basic conditions of success were lacking, namely control over existing stocks and their distribution, inter-provincial co-operation and co-ordination, and an administrative machinery in all provinces and states familiar with the task, honest in the discharge of its duties and amenable to discipline from the centre[1]." The result was wide spread speculation, hoarding and black marketing. Moreover since only the price of wheat was controlled the price of other food grains rose freely. Not only this in some provinces (e.g., Bombay) while the price of wheat was controlled the price of flour was left free. Naturally wheat was converted into flour and sold at any price.

Under these circumstances the Government was forced to give up the idea of controlling the price of wheat and on 24th January 1943 wheat was decontrolled and its price immediately rose (to about Rs. 12 at Lyallpur). Later, however, a more effective control was imposed.

In the mean time the Food Grains Control order had been issued in May 1942. This attempted to Control supplies in addition to prices and was to be enforced by Provincial Governments. The order required as already noted wholesale traders in food grains to take licences and submit monthly returns of their transactions. The order however, failed to check speculation since it put no limits the amounts that could be held by the licensees. The food situation went on deteriorating and developed into a major famine in Bengal.

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(1) L. C. Jain: Indian Economy During the War. (1944) P. 122.

In July 1943 the Government appointed a Committee (The Food grain policy Committee) to investigate into the causes of food shortage and to make recommendations. The Committee, as we have seen in an earlier chapter, recommended stoppage of exports, increasing of imports and promoting further production through[1] the Grow-More-Food Compaign.

The Committee reported in September 1943 and in October a conference was convened at Delhi of the representatives of the Central and Provincial Covernments. At the conclusion of the Conference the Central Government announced its decision in favour of (*a*) the basic plan of procurement (*b*) statutory price control of Major food grains and (*c*) urban rationing. The Governments' policy was mould on these lines in the subsequent period.

Another important article was cloth. The price of certain variety of cloth had risen five times by 1942 due mainly to speculation. A scheme of standard cloth was devised. But due to several difficulties, like shortage of coal and the limitations set by the capacity of existing machinery, standard cloth in adequate quantities could not be produced. In June, 1943 a cloth control scheme was launched with the co-operation of the textile industry. This brought down prices from 30 to 40 % but the prices were still beyond the poor man's pocket. The enforcement of the Cloth Control Order brought to light large hoards of cloth which enabled the Government to scale down certain ceiling prices fixed earlier.

15 **Restrictions on Speculation.**—Simultaneously with these attempts at controlling prices the Government took measures to meet the menance of speculation which was a serious cause of pushing prices up. The excess of purchasing power to the hands of a certain class of people was being used in speculative adventure. New companies were being floated for banking and other purposes to attract idle money. Private concerns were converted into joint stock companies at inflated prices of their shares. These adventures added little to production but created a speculative boom re-inforcing the already existing inflationary trends. The Government had to intervene. In May, 1943 measures were taken to discourage forward transactions especially in cotton, cotton yarn and cloth and bullion. The trade was thus put on a cash basis. The collection of the E. P. T. was speeded up by

(1) For a discussion of the food policy of the Government see chapter XI Sections 12—17.

an Ordinance in May to draw off purchasing power from speculation. The provision of optional deposits in the E. P. T was made compulsory. Distributions of generous bonuses and commissions was discouraged. To prevent the growth of mushroom companies a Capital Issue Control Order was issued. These measures were effective to a considerable degree. In July, 1943 the Government under Defence of India Rule took powers to restrict and control advances against commodities including bullion. "This was a master stroke" commented one writer, "and even before the powers were used in any way commodity prices registered a fall and there was quite a landslide in the bullion market[1]." The prices of food grains, however, kept still high.

In conclusion one might say that the measures taken by the Government to meet the inflationary situation failed The basic reason was the scarcity of goods created through the diversion of resources to war purposes without proper regard to the needs of the civilian population. India was deficit in food and was dependent to a fair degree on imported food grains before the war. Import stopped due to enemy occupation of the sources of such imports. In fact food grains were allowed to leave the country. Added to this were the transport difficulties, speculation, hoarding and lack of inter provincial co-operation. Cloth again suffered from scarcity due to fall in imports and growing demands of the army. A large scarcity of other goods were being appropriated by the Government for war needs in return for paper currency which though backed by sterling assests in London was a more or less a net addition to circulation. Price control measures failed partly because of incompetence of the administrative machinery but mainly because they were expected to handle an impossible situation—growing purchasing power in the face of growing scarcity of goods.

16. Post-war and Pre-partition Prices.—The tempo of increase in prices did not abate with the end of hostilities. The index of whole prices and also of the cost of living continued to rise. The Economic Adviser's index of wholesale prices which stood at 227 for 1944 rose only to 231 for 1945. This small increase raised the hope that inflation might be at an end after all. But this hope was soon falsified. The index jumped to 252 for 1946 and further to 297 for 1947. At the time of the partition in August, 1947 it stood at 302. The Cost of Living

(1) P. J. Thomas: War Time Prices (Oxford Pamphlet No: 18, P. 18.)

Index number showed similar trends. The Bombay Cost of Living Index Number (1939=100) rose from 226 in 1944 to 265 in 1947. And Lahore working class Cost of Living Index Number (1939=100) rose from 351 in August; 1945 to 416 in June, 1947.

The causes of increase in the cost of living and rise in prices are to be found firstly in the continued increase in the volume of notes issued against accumulating sterling balances received in payments of goods already delivered during the War. The volume of currency in circulation increased from Rs. 1,197 crores in 1944-45 to Rs. 1,417 crores in 1947-48—an increase of Rs. 220 crores. Deposit money increased during the same period from Rs 648 crores to Rs. 796 crores and cheques cleared from Rs. 114 crores to Rs. 128 crores. The second cause was the pull exercised by the pent up demand of the war period on consumer goods and capital equipment. Even though imports increased, exports also increased while production was experiencing a significant decline. In the net there was a growing scarcity of commodities with the resultant pushing up of prices. The table below sets forth these trends.

Eastern Economists' Index Numbers.[1] August, 1939=100.

Yaer.	Agri Production.	Industrial Production.	Imports.	Exports.	Wholesale Prices.
1944-45	101	121.7	66.6	50.7	227
1945-46	94	120.0	73.3	59.1	231
1946-47	96	105.0	67.1	61.8	252
1947-48	97	105.9	85.0	65.2	297

The failure in making up the deficiencies in production was due to industrial unrest and difficulties of importing capital goods. The General Index (Eastern Economists') of Industrial activity fell from 119.7 in 1945-46 to 104.0 in 1947-48. The slowing down of productive activity, during the years 1946 and 1947 was further due to the general sense of insecurity prevailing due to civil commotion preceding the partition.

17. Post-Partition Price Trends in Pakistan.—After the partition of the Indo-Pak sub-continent the trends of prices both in India and Pakistan still continued upwards. Hence forth,

1 See Records and Statistics. Quarterly Bulletin of Eastern Economists for July, 1950. PP. 79, 103 and 119.

we shall only take note of price trends in Pakistan [1]

For convenience of study we shall divide the entire post-partition period into three sub-periods Thus (a) from August, 1947 to the end of 1948 when prices rose almost continuously. (b) From Dec 1948 to Sept. 1949 when prices fell gradually. (c) From October 1949 to the beginning of 1951

For the first sub-period we are in possession of a series of Index Numbers issued by the Office of the Economic Adviser to the Government of Pakistan [2] It was based on prices at Karachi but it can serve to indicate the trends in West Pakistan

According to this index number there was a continuous rise in prices in West Pakistan from August, 1947 to November, 1948 thus

	Whole Prices at Karachi Base August 1939 = 100
August 1947	306 5
December 1947	323 4
April 1948	340 4
August 1948	370 1
November 1948	374.0
December 1948	372.5

The prices rose between August 1947 and the end of 1948 is also confirmed by the following statistics of prices of certain individual commodities

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1 The studeot of prices in Pakistan since the partition has to rely upon very inadequate data No contiouous index number of wholesale prices is available which could give a broad picture of price trends in the country More over the study of prices for the two wings of Pakistan has to be made as if they were two separate countries This is due to the enormous distance separating [illegible] Conclusions [illegible]

Wholesale Prices at Karachi

Commodity :—	Market	Unit	15-8-47	8-12-48	% change
			Rs. a. p.	Rs. a. p.	
Wheat (fair quality)	Karachi	Mds.	8-5-8	12-0-10	+44.3
Rice (Kangni)	,,	,,	10-0-0	12-3-6	+22.2
Sugar (Indian)	,,	,,	24-5-0	39-12-0	+63.9
Tea (leaf Orange Pekoe)	,,	lb	1-14-6	2-1-6	+9.8
Salt	,,	Mds.	0-10-0	3-5-0	+430.0
Cotton Raw :—					
L.S.S. (Pb) R. G.	,,	,,	55-0-0	79-0-0	+50.0
Cow Hides 8/20 lbs	,,	Mds. of 28 lbs.	30-0-0	29-0-0	−3.3
Baffalo Hides 12/40 lbs	,,	,,	25-0-0	17-0-0	−40.0
Wool Kandhar cleaned	,,	Mds. of 82 lbs.	95-0-0	130-0-0	+33.7
Wool Sind White	,,	,,	100-0-0	116-0-0	+15.0
Kerosen (Elephant)	,,	2 tins	8-13-0	11-9-0	+31.2
Jute (Manufactured)	,,	100 bags	119-8-0	158-8-0	+33.9
Coal (1st class Bengal)	,,	Tons	79-0-0	90-11-0	+14.8

Prices of some of the important imported articles had risen considerably even by the middle of 1948. Among these were the following :—

	Index Numbe of wholesale prices at Karachi. August 1939=100.		
	16 8-47	29-5-48	+increase −decrease (points)
Cotton Manufactures	220	259.5	+39.5
Leather Manufactures	242	269.5	+27.5
Iron and Steel	163	203.6	+40.6
Dyes and Chemicals	377	507.2	130.2
Soap	261	461.1	200.1
Coal	429	461.4	32.4

These were the commodities for which Pakistan areas had depended upon what was now India. Due to post-partition disturbances and dislocation of transport and the unsympathetic policy of the Indian Government these commodities could not flow freely into Pakistan. The only group which showed a fall were raw hides and skins and building materials. The index number of the former fell from 375 to 314.5 or by 50.5 points and of the latter from 553 to 529 or by 23.5 points during the period.

The fall in the case of raw hides and skins was presumably due to dislocation of export trade with India and other countries where leather factories were situated. Prices of this group recovered later. The fall in the building material was due to stoppage of building activities due to certain basic shortages like iron and steel and coal, the latter for baking bricks.

The index number of food grains stood at 351 at the two dates given above. But in between these dates it passed through several changes. So did the prices of cotton fabrics. Below we give the index number showing trends in prices of food grains, other food articles and cotton manufactures :—

	Food grains	Other food articles	Cotton Manufactures
August 1947	351	332	220
December 1947	359	379	220
April 1948	346	367	259
October 1948	452	393	333
December 1941	416	391	283

Thus food prices and prices of cotton manufactures also indicated the same trend as already noted. They rose throughout 1947 and 1948. By the end of the year 1948, however, a downward trend had started, except in the case of "other food articles" which include sugar ghee etc. which later rose because they were still in short supply.

The trends shown by the Karachi index numbers are supported and in some cases more than supported by food prices in other parts of Pakistan as shown below :—

Monthly average prices per maund of wheat.

Month.	Markets. Lyallpur (Punjab) R. A. P.	Sukkur (Sind) R. A. P.	Mardan N.W.F.P. Rs. A. P.	Fand Pur E. Bengal Rs A. P.
March 1948 ...	9-8-0	11-4-0	34-12-0	16-12-0
May 1948 ...	9-14-0	11-4-0	24-0-0	16-12-0
September 1948	16-0-0	12-8-0	19-0-0	20-0-0
January 1949 ...	12-14-0	13-0-0	20-8-0	35-0-0
March 1949 ...	11-0-0	13-0-0	17-0-0	25-0-0
September 1949	8-12-0	9-6-0	9-12-0	28-10-0
December 1949	9-1-0	9-11-0	9-12-0	17-13-0

Notice the great disparity in the price of wheat in the various provinces. Even in West Pakistan the price of wheat at Mardan was more than three times its price at Lyallpur. This was presumably due to the break down of the trade organisation after partition which prevented movements of grains from the surplus to the deficit areas. With the passage of time, however, trade and transport facilities assumed their normal condition and the disparity in prices were reduced by the beginning of 1949 and later disappeared as far as West Pakistan was concerned. The Price of Wheat in East Pakistan however, was more than doubled between March 1948 and January 1948, the average of the last mentioned month being almost three times compared to the price at Lyallpur. But wheat is consumed only in limited quantity in East Bengal the staple food grain of the province being rice. The high price of wheat there, was due to the difficulty and cost of importation from long distances. The rise in the price of rice in East Bengal is indicated by the Index Number of whole sale prices constructed by the Department of Civil Supplies of the Provincial Government. From 100 in July 1947 this index rose to 163 in October 1948.

Apart from wheat and rice prices of other commodities in places outside Karachi rose as follows: Taking the last week of December 1947 as the least whole sale prices in Dacca on 10th July 1948 were Tobacco 20% higher, Mustard Oil 41% higher, salt 15% and pulses 11% higher. In chittagong Mustard Oil was 26% salt 53% and pulses 61% higher In the West Punjab the wholesale prices at Lyallpur in April 1948 compared to August 1947 were gram 82% higher, Refined Sugar 63%, American Cotton 41%, Tobacco 14%, Salt 100%, Cow hides 132% and Bull hides 115% higher.

These high prices were reflected in the rise in the Cost of Living Indices. Below we give the cost of Living Index in Lahore consttucted by the Board of Economic Enquiry Punjab:

Cost of Living Index Number for Lahore.
Base: August, 1939 = 100.

	Lower Middle Class.	Working Class.
June, 1947...	376	416
October, 1947...	456	484
February, 1948...	443	484
June, 1948...	435	447
October, 1948...	451	454
December, 1948...	455	478
+ increase in December 1948 over June 1947.	+79	+62

The working class Index Number reached its peak in January, 1948 when it stood at 494. The Lower Middle class index was also highest for the same month at 458. After this there was some decline. Since for these classes the prices of food grains are of major importance these indices move more or less in correspondence with the food grain prices.

18. Causes of Post Partition Rise in Prices.—The high prices prevailing in Pakistan during the later part of 1947 and during the year 1948 may be attributed to a variety of causes. On the one hand there was the scarcity of commodities. Food production in 1947 and 1948 was lower than for the pre-partition years for these areas. The crop of 1947 had already been moved out to deficit areas of Eastern Punjab when the partition occurred. The crop of 1948 suffered from smaller sowings and also defective harvesting due to the post-partition movements of [illegible] and general unsettlement. Cotton crop [illegible] as lower for similar reasons. The floods [illegible] destroyed crops as well as stocks. In [illegible] appeared in both wings of Pakistan. and wheat had to be imported from outside the country The supply position further deteriorated due to disorganised transport, and large scale smuggling over the long land frontier with India where inflationary prices promised high profits. There was hoarding on the part of landlords and black marketing on a large scale of commodities in short supply.

As regards imported commodities the trade links established by the non-Muslims were snapped with their movement out of the country. It took some time for the Muslims to re-establish trade relations with foreign countries. Commodities which used to be supplied from areas now under the Indian Dominion failed to reach Pakistan due to the break down of transport and trade channels. The rising tariff barriers between the two Dominions after the expiry of the Stand—Still agreement in April, 1948 further restricted trade and raised prices of goods of each country consumed in the other. Moreover, the Government was being cautious regarding their import policy in order to safeguard foreign exchange in the interest of financing of capital goods at a later stage. Development plans were moving slowly because of the general sense of insecurity due to political tension between the Dominions over Kashmir. This meant over budgeting for defence purposes and starving of the developmental sector. There was deficit budgeting in the interest of defence in the capital section of the budget even though the revenue budget for 1948-49 was balanced. Part of

the rise in prices was a reflection of higher prices prevailing in other countries due to expenditure on armament in the face of increasing international tension. The Government tried to relieve the situation through tightening of control measures inherited from pre-partition days but the machinery of controls failed to work smoothly and effectively. There was a growing discontent among the people especially among the refugees who had lost there all in India and had not yet been absorbed in the economy of Pakistan. Those who succeeded in transfering there savings to Pakistan further accentuated the price situation by spending this additional purchasing power without contributing proportionately to the production of the means of living. The situation had already become ambarrasing by the spring of 1948 and some action on the part of the Government was called for.

19 **Action Taken by the Government.**—The Ministry of Economic Affairs of the Government of Pakistan took initiative and called an Economic Controls Conference at the end of April, 1948. The main objectives of the Conference were :—

(*a*) To examine the operation of economic controls with a view to their relaxation or removal ;

(*b*) to consider measures to increase the production of hand-spun yarn and hand-loom cloth and to popularise their use ;

(*c*) to devise ways and means of eradicating the evils associated within the operation of economic controls such as corruption and black marketing.

The conference was in favour of de-control in general, but recognised that the extent of control in each case must depend on the total supplies available, the possibility of reducing demand and the availability of substitutes. In cases where substitutes were not available for instance petroleum and petroleum products, it was not possible to introduce de-control of prices. It might *b*, however be possible to remove controls on items of general use like kerosene and diesel oil. As to the commodities like coal, iron and steel, paper and newsprint for which Pakistan depended on foreign imports, which were not available in sufficient quantities, control could not be removed. As regards foodgrains the conference admitted that normally Pakistan was self-sufficient in this respect but not the two parts of Pakistan separately. Moreover considerable damage had been caused to Pakistan's food resources due to floods, and dislocation of trade, and movement of populations etc. and therefore a cautious policy was necessitated and controls had to continue for the time being.

As regards cloth Pakistan depended largely on imports from India. The conference suggested that measures should be taken to increase these imports and at the same time steps should be taken to control the production of handloom cloth in Pakistan. Further they were strongly of the view that strict measures should be taken against corruption generally associated with controls. A committee was appointed consisting of Cetntral and Provincial officials to frame a Model Act, to deal with the offences of corruption, profiteering and black-marketing.'

Following this conference the Central and Provincial Governments took certain measures to relieve the price situation which was creating distrust and agitation among the general population. The Government took some austerity measures like reducing the amount of ration, substituting half rice for wheat. To increase food supplies in the market Government also took steps to persuade the producers, mostly big landlords, to deliver the surplus grains to the Government agencies, in which policy they met with only a partial success. Further the import policy was liberalised by extending the limit of commodities under the open general Licence.

The Government also arranged for further imports of essential goods like foodgrains and cloth from other countries. They applied for 160,000 tons for foodgrains to the International Food Council. Some wheat was imported from Russia and some from America. Arrangements were also made for the importation of coal from England and cloth from Japan and Czechoslovakia.

20. Prices During 1949.—The measures taken by the Government failed to achieve immediate results though ultimately they did have some effect. As we have already seen, the rise in prices continued almost to the end of the year 1948. Even before the year end, however, the peak had been passed and a downward trend had started. This was partly a reflection of the recession in the United States of America which occurred at the end of 1948 and the beginning of 1949 and partly it was due to internal causes including the measures taken by the Government. The Karachi Index number of wholesale prices (1939-100) which had stood at 372.5 in December, 1948 rapidly fell by 20 points in three months and was 352 in March, 1949. During the next three months the fall was more gradual, the Index Number reaching 344.3 in June when its publication was stopped.

According to groups of commodities the movements in this series was as follows.

Index of Wholesale Prices
at Karachi. (August, 1939=100)

	Food grains.	Other articles.	Cotton Manufactures.	General Index.
December, 1948 ...	416	391	283	372.5
January, 1949 ...	403	380	253	365.0
February, 1949 ...	382	363	224	357.5
March, 1949 ...	377	402	212	352.0
April, 1949 ...	348	395	204	349.6
May, 1949 ...	350	395	200	349.2
June, 1949 ...	347	399	208	344.3
Change over the period ...	−69	+8	−75	−28.2

It will be seen that the greatest fall was in the case of cotton manufactures. Like some other imported articles this was due to increased imports which had resulted from the liberation of the import policy of the Government when the O. G. L. was extended in August 1948. This gradually relieved the post-partition scarcity of consumer goods in the country. The value of our imports by sea was higher by 20% in the third quarter of 1949 compared to the third quarter of 1948. The fall in the prices of food grains was also quite heavy. This was so because of the good 1949 harvest of wheat in West Pakistan and increased production of rice in East Pakistan, other food grains also increased. The increase in production of cereals was as follows:

Production of Cereals[1]
Million Tons.

	1947—48	1948—49	Percent increase.
Rice	7.38	8.43	+14.2
Wheat	3.32	4.10	+23.5
Bajra	.29	.37	+28
Jowar	.20	.21	+ 5
Maize	.35	.41	+17
Barley	.12	.18	+50
Gram	.52	.80	+54
Total	12.18	14.58	19.7

(1) State Bank of Pakistan: January 1951 Statistical Summary P. 35.

Thus there was an increase of about 20 % in the production of cereals. Most of the fall in price among the major food grains, however, occurred in the case of wheat. Due to increased production Pakistan had a wheat surplus of about half a million tons which had a deflationary effect on prices. Rice on the other hand continued high, in fact its price increased during the period under review.

Its price came down only later in the year presumably as a result of the fall in the price of jute after the non-devaluation decision.

The movements in the wholesale prices of rice and wheat are indicated by the table below :—

Wholesale price per maund in 1949.

	Wheat (Lyall pur) R—A—P	Rice (Chittagong) R—A—P	Rice (Dacca) R—A—P
January	12—14—0	19—11—0	33—2—0
March	11— 0—0	22—12—0	35—4—0
May	9— 4—0	26— 8—0	39—0—0
July	9— 5—0	28— 3—0	33—9—0
September	8—12—0	27—12—0	37—2—0
December	9— 1—6	16— 5—0	20—14—0
% Change	—29 %	—18 %	—33 %

The same trends are indicated by the following index numbers of some individual commodities.

Index Number of Wholesale Prices.[2]
August, 1947=100 .

	Jute	Cotton	Wool	Wheat	Mustard Oil	Rice[3]
January, 1949	128	150	122	144	117	137
April, „	127	154	117	142	111	136
June, „	127	147	118	144	133	...
August, „	101	144	112	144	111	...
September, „	106	134	113	144	133	113
December, „	97	128	...	144	167	...

(1) Economic Survey of Asia and the Far East (1949) P. 192.
(2) This Index Number is constructed by the Karachi Journal "Wealth".
(3) Taken from Index Number of Department of Civil Supplies E. Bengal. July, 1947-100.

Thus up to September, 1949 the price of jute and cotton were definitely on the downward grade and so was wool. Wheat kept stable (presumably controlled price has been taken) and Mustard oil showed erratic movement. The last one is imported from India into East Bengal and is widely used there as a medium for cooking. This explains the irregular movements in its prices and the sudden rise after the devaluation crisis.

21. **Effect of Pakistan's Non-Devaluation Decision.** On 18th September, 1949 the £ sterling was devaluated in terms of the dollar by about 30 %. The Indian rupee followed the same course and many other countries devaluated their currencies in varying degrees. Among the Common-wealth Countries Pakistan was the only one which decided not to devaluate its rupee. One of the reason for this policy, as given by the Government of Pakistan at the time, was their anxiety to bring prices of essential consumer goods down especially in East Pakistan where prices had ruled high. It was expected that due to her non-devaluation decision the prices of imports into Pakistan from sterling area and other countries which depreciated their currencies would go down in terms of the Pakistan rupee and prices of goods from dollar areas would not go up. This would cheapen consumer goods as well as capital good, the latter of which would stimulate internal development. As regards the prices of an exports while they would rise in terms of the depreciated foreign currencies they would remain uneffected in terms of the home currency.

To some extent these expectations were falsified because of Indias' refusal to accept the new exchange rate of the Pakistan rupee. India contended that she was not prepared to pay more for jute and cotton in terms of her devaluated rupee and fixed the maximum price of jute delivered in India at Indian Rs. 35 per maund for "bottoms." Pakistan on the other hand fixed a maximum price of Rs. 23 (Pak) per maund for "jat bottoms" which at the new parity including transport (according to Indian calculation) meant a price of about Rs. 45 at Calcutta. It was impossible to continue transactions as long as there was this gap of Rs. 10 (Indian) between the minimmm price of Pakistan and maximum price of India. A trade deadlock ensued not only in Jute but in all commodities. The Government of India suspended the Open General Licence (O.G.L.X.) for imports from Pakistan, allowing only imports of fish, milk and milk products. She also put a bar on the export of coal to East Pakistan. The Pakistan Jute Board which was set up by the Government to handle the problem of jute stopped transit shipments through

Calcutta which increased the pressure on the limited handling capacity of Pakistan Port of Chittagong. Thus, jute failed to be exported in normal quantity; and had to be stored up. This had a further depressing effect on jute prices. There was considerable smuggling at rates below the officially fixed minimum. It was some time before the situation improved as new markets were found for Pakistan raw jute in overseas countries and handling capacity of Chittagong was expanded. The price of jute, however, remained below the normal level and has not yet achieved their pre-devaluation height.

The depressed jute prices adversely affected the income of the East Bengal peasantry and reached on other prices on which such incomes were spent. Hence the fall in the price of rice, even though it was in short supply, after the devaluation crisis. Prices of articles that used to come from India (e g. Mustard oil) rose instead of falling, due to trade deadlock with that country.

In West Pakistan prices even before the non-devalution decision were maintaining moderate levels. After devalution there was fall in price of cotton for a time and there was a slump in wheat. The export surplus of wheat could not he sold at remunerative prices in the international market. Some provincial governments which had stocked large quantities of wheat purchased earlier at higher prices suffered considerable losses due to this slump. The price of wheat in the free market fell much lower than the controlled price in rationed areas. People preferred, whereever they could, to acquire their wheat from the free market instead of the government control shops. During 1949, however, rationing of wheat continued in important towns of West Pakistan and of rice in East Pakistan. In 1950 wheat rationing was abolished in most towns of West Pakistan.

The main trend in the wholesale prices of some important commodities are shown below[1] :—

Wealths' Index Number of Whole sale Prices.
August, 1947=100.

Month.	Jute	Cotton	Wool	Wheat	Mustard oil
September, 1949 ...	106	134	113	144	133
December, 1949 ...	97	128	...	144	167
March, 1950 ...	90	113	126	139	111
June, 1950 ...	92	127	183	108	118
October, 1950	90	...	203	104	165
December, 1950 ...	88	148	204	104	160
March, 1951 ...	88	152	208	104	162
Change ...	—18	+18	+95	—40	+29

Thus jute is still (in March, 1951) 18 points lower as compared with September, 1949 and 40 points lower compared to January, 1949. Cotton touched its peak in September, 1950 when the Index stood at 160. In March, 1951 it is 18 points higher than September, 1949. It reached its lowest in the post devaluation period in February & March, 1950 when the index number stood at 113. In March, 1951 compared to March, 1950 it was higher by 39 points. This rise in the price of cotton has been due to exceptionally good demand for this commodity in the international market due to the Korean conflict and the resulting fear of world war leading to stock piling of essential raw materials on the part of many countries. Moreover, the world production of cotton has been less than in former years. The price of wool has risen for similar reasons. Its index number has advanced farthest among the above quoted commodities. The price of mustard oil has been erratic as before with an upward trend. Within the opening up of trade channels with India it is hoped the price of this article and other imports from India will go down to some extent. But we cannot expect any sudden relief because prices in India of most goods are much higher than they are in Pakistan.

1. For wholesale prices of a large number of commodities over the entire period see Appendix to this Chapter.

22. **Effect on the Common man.** The question most frequently asked is: How far has the comman man as a consumer benefitted from Pakistan's decision not to develuate the rupee. The common man is not concerned so much with wholesale prices even though they did show a downward trend during a certain period after the currency decision. It has been suggested that the main benefit of Pakistan's exchange pol cy has been reaped by the middleman. No less an authority than Mr. Zahid Hussain the Governor of the State Bank said in September, 1950. "The incomes and profits in urban areas have continued at their previous levels and have even increased in certain sectors. The middleman has exploited this situation and has been able to keep the prices at high levels and maintain an appearance of scarcity of goods thereby increasing his income. The benefit of the higher value of the rupee has not been passed on except on a limited measure to the consumer. The general conditions of profits and incomes in urban areas have been such as to enable him to sell his goods at high prices, which has caused dissatisfaction and resentment through out the country against him for his unsocial and unpatriotic attitude and against the administration for its inability to keep him in check".[1]

Of course if the middleman can make profits by creating artificial scarcity he will do so and no amount of condemation will deter him. The question is why are conditions allowed to develop which enable the middleman to make abnormal profits. Abnormal profits can persist only when the force of competition is kept in check The real trouble seems to lie at the stage of the granting of import lincenses and exchange facilities. The difficuty is that on the one hand the Government has to be cautious not to allow imports without discrimination, to safegaurd our foreign exchange resources for developmental purposes. On the other hand if such facilities are granted to a resticted number of people they create semi monopolistic conditions and exploit the consumer. One way is to spread out the total allotments over a large number of importers. Another remedy which needs trial is to encourage co-operative societies to enter into such business especially in the handling of good of poor man's consumption. The competition of co-operative shops will force the other sellers to bring their prices into line with the prices charged by the former and be content with normal profits.

The common man, however, lives mostly in our villages How has he fared there? The villager consumes very little of

(1) Speech delivered at the Second Annual general Meeting of the Bank, On 26 th September, P. 8.

imported goods. But the prices of imports do react upon the prices of domestically produced articles of his consumption. The most important being cloth. If the imported cloth is cheaper the home produced cloth is available to the village consumer at lower prices. But this means lower incomes of another class 'common man' the village weaver. Similar is the case with food grains and agricultural raw materals. The fall in their prices is welcomed by the common man in the town and the non-sgriculturist in the village but it adversely affects the village producer so far as be has any surplus to sell. So that the 'comm on' man is not one category of persons.

Since the non-devaluation decision was expected to cheaper imports and since imported articles are mainly consumed in urban centres it would be instuctive to see how far has the cost of living of the lower income groups in towns gone down since the decision.

We give below the cost of living indices in some of the towns in Pakistan.

Cost of living Indices for Industrial workers for selected centres. (1)

(Base: April 1948 to March 1949 = 100)

1950	Karachi	Lahore[2] (Punjab)	Sialkot (Punjab)	Khewra (Punjab)	Narayan ganj. (E. Bengal
January ...	96	91	86	92	102
February ...	97	93	86	91	101
March ...	97	87	86	89	100
April ...	96	83	82	88	97
May ...	94	...	76	85	96
June ...	93	...	74	79	97
July ...	93	...	75	80	101
August ...	94	...	76	81	98
September ...	94	...	79	81	96
October ...	94	...	80	77	97
November ...	94	...	79	78	97

According to the above statistics no significant reduction has taken place in the cost of living of the working classes in Narayanganj and Karachi. There has been, however, over 20% reduction in November 1950 over the base period in the case of

(1) Source: Central Statistical office Government of Pakistan.
(2) Figures from May 1950 to November 1950 under compilation.

the Punjab towns. Detailed figures of commodity groups show that the reduction has been mainly in the case of food. The indices of the cost of food are given below :—

1950

	January	June	November	Difference Nov. over January
Karachi ...	96	91	92	—4
Lahore ...	89	76[1]	...	—13[2]
Sialkote ...	83	67	73	—10
Khewra ...	89	71	71	—18
Narayanganj ...	103	95	96	—7

The cost of food has gone down due to better conditions of supply compared to the base period and the difficulties of exporting the surplus of wheat for the season 1949-50. Though this result can be indirectly traced to devaluation it cannot be regarded as the fulfilment of our expectations. Among the imported articles the category clothing, bedding and footwear should have been cheapened if our expectations had been realised. The following is the cost indices of this category.

Cost Indices of clothing, bedding and footwear.
Year 1950

	January	June	November	Change in Nov. over January
Karachi ...	112	112	112	No change
Lahore ...	88	88	...	No change
Sialkote ...	82	79	85	+3
Khewra ...	89	78	72	—17
Narayanganj ...	98	91	102	+5

(1) Figure is for April. (2) April over January.

Thus in two centres the cost remained constant, in two it increased and in one it decreased. The one where it decreased is a minor town unlikely to be dependent on imported cloth and foot wear to the same degree as bigger towns. Thus the maximum advantage that can be claimed for non-devaluation decision in this connection is that it prevented prices to rise to any significant degree. Taking the whole period from September 1949 to November, 1950, however, one might say that there was a tendency of the prices to come down until the middle of 1950. After which date prices have been slowly rising presumably due to the repurcussions of the Korean conflict. On the whole therefore, even if the full advantage has not been transferred to the consumers the non-devaluation decision can be pronounced as justified. Had India continued normal trade relations with Pakistan the net advantage to the country would have been immeasurably greater.

APPENDIX TO CHAPTER XXIII

WEEKLY WHOLESALE PRICES OF SPECIFIED COMMODITIES IN PAKISTAN FOR WEEK ENDING DECEMBER 30th, 1950.

Central Statistical Office, Government of Pakistan, Karachi.

Commodity and Description	Market	Unit	Prices on or about (in Rs., As. and Ps.) 2					Percentage Change Over 1/			
			10-12-50	23-12-50	30-12-49	15-8-47	31-8-39	23-12-50	30-12-49	15-8-47	31-8-39
Wheat— F. A. Q. ..	Karachi	2½ Mds.	24-12-0	23-12-0	30-2-1	20-14-2	7-0-6	+ 4.2	− 17.8	+ 18.5	+251.5
	Multan	Maund	7-12-0	8-2-0	10-0-0	N. A.	N. A.	− 4.6	− 22.5	—	—
	Peshawar	"	7-11-0	9-0-0	N. A.	"	"	− 14.6	—	—	—
Rice— Kangni ..	Karachi	"	12-3-7	12-3-7	12-3-7	10-0-0	5-12-0	Nil	Nil	+ 22.4	+112.6
Sugdasi ..	"	"	18-6-10	18-6-10	18-6-10	15-10-0	N. A.	"	"	+ 18.4	—
Basmati ..	Gujranwala	"	18-0-0	18-0-0	17-8-0	N. A.	"	"	+ 2.8	—	—
Medium ..	Chittagong	"	15-0-0	15-0-0	15-8-0	37-9-0	2-8-0	"	− 3.2	− 60.0	+500.0
" ..	Dacca	"	16-0-0	15-0-0	N. A.	N. A.	N. A.	+ 6.7	—	—	—
Gram— F. A. Q. ..	Karachi,	2½ Mds.	20-4-0	21-0-0	23-12-0	19-11-0	6-14-0	− 3.6	− 14.7	+ 2.8	−194.5
	Okara	Maund	8-0-0	8-0-0	7-0-0	N. A.	N. A.	Nil	+ 14.3	—	—
	Dacca	"	15-0-0	15-0-0	16-0-0	"	"	"	− 6.2	—	—
	Peshawar	"	7-0-0	7-8-0	N. A.	"	"	− 6.7	—	—	—
Barley— (Punjab) ..	Karachi	8 Mds.	50-0-0	50-0-0	N.A.	87-0-0	18-0-0	Nil	—	− 42.5	+177.9
	Multan	Maund	5-12-0	6-0-0	6-2-0	N. A.	N. A.	−4.2	−6.1	—	—
Sugar— (Refined) ..	Karachi	"	38-2-0	38-2-0	36-0-0	24-5-0	10-0-0	Nil	+ 5.9	+ 56.8	+281.2
	Lahore	"	41-4-0	41-4-0	40-8-9	N. A.	N. A.	"	+ 1.7	—	—
	Mardan	"	38-2-0	38-2-0	44-0-6	28-0-0	"	"	− 13.4	+ 36.2	—
	Dacca	"	36-4-0	36-4-0	38-2-0	N. A.	"	"	− 4.9	—	—

Commodity and Description	Market	Unit	Prices on or about (in Rs., As. and Ps.) 2/- 30-12-50	23-12-50	30-12-49	15-8-47	31-8-39	Percentage Change Over 1/- 23-12-50	30-12-49	15-8-47	31-8-39
Tea—											
Leaf : Orange Pekoe	Karachi	Pound	1-13-6	N. A.	1-10-0	1-14-6	0-11-0	—	+ 13.5	−3.3	+168.2
Dust : High Grown	"	"	1-9-6	"	1-8-0	1-13-6	0-10-0	—	+ 6.2	−13.6	+155.0
Lipton : White Label	Lahore	"	2-7-0	2-7-0	2-10-0	N. A.	N. A.	Nil	− 7.2	—	—
Salt—											
Mauripore ...	Karachi	Maund	3-10-0	3-10-0	3-5-0	0-10-0	1-15-0	"	+ 9.4	+480.0	+ 87.1
Lahori ..	"	"	7-0-0	7-8-0	N. A.	N. A.	N. A.	"	—	—	—
Crushed ...	Chittagong	"	8-0-0	8-0-0	7-0-0	4-10-0	2-8-0	"	+ 14.3	+ 73.0	+220.0
Rock ...	Lahore	"	4-12-0	4-12-0	4-12-0	N. A.	N. A.	"	Nil	—	—
Tobacco—											
Leaf ...	Sargodha	"	100-0-0	100-0-0	100-0-0	"	"	"	"	—	—
	Mardan	"	70-0-0	70-0-0	120-0-0	"	"	"	− 41.7	—	—
Motihari ...	Dacca	"	120-0-0	120-0-0	95-0-0	"	"	"	+ 26.3	—	—
Rapeseed—											
Sind ...	Karachi	Bag of 2½ Mds.	43-4-0	44-8-0	54-6-0	"	"	− 2.8	− 20.4	—	—
Cotton Seed—											
N.T. Popta Kantan (New)	"	Maund	5-8-0	5-8-0	5-10-6	"	"	Nil	− 2.8	—	—
-do- (Old)	"	"	4-0-0	4-0-0	3-8-0	"	"	"	+ 14.3	—	—
Til Seed ...	"	"	N A.	N. A.	N. A.	28-0-0	6-5-4	—	—	—	—
Til Oil ...	"	"	"	"	"	64-0-0	14-0-0	—	—	—	—
Coconut Oil ..	"	"	75-0-0	74-0-0	"	54-0-0	9-10-0	+ 1.4	—	+ 38.9	+679.2
Mustard Oil—											
Ghani ...	Chittagong	"	130-0-0	130-0-0	150-0-0	90-0-0	11-4-0	Nil	− 13.3	+ 44.4	+1055.6

Commodity and Description	Market	Unit	Prices on or about (In Rs., As. and Ps.) 2/ 30-12-50	23-12-50	30-12-49	15-8-47	31-8-39	Percentage Change Over 1/ 23-12-50	30-12-49	15-8-47	31-8-39
Cotton Raw—											
4P (Punjab) R.G.	Karachi	„	98-8-0	97-0-0	74-0-0	47-12-0	N. A.	+ 1.5	+ 33.1	+106.3	—
289 F. N. T. (Punjab) R.G.	„	„	103-0-0	102-0-0	79-0-0	62-5-0	„	+ 1.0	+ 30.4	+ 65.3	—
L. S. S. (Punjab) R.G.	„	„	99-8-0	99-0-0	75-0-0	55-5-0	„	+ 0.5	+ 32.7	+ 79.9	—
Sind Desi ..	„	„	92-0-0	89-0-0	64-8-3	N. A.	15-5-6	+ 3.4	+ 42.6	—	+499.6
Punjab Desi ..	„	„	90-0-0	87-0-0	55-0-0	N. A.	13-1-6	+ 3.4	+ 52.5	—	+587.3
Cotton Manufactures—											
White Shirting 16000 Japan	„	Piece of 40 yds.	65-0-0	63-12-0	64-0-0	„	N. A.	+ 2.0	+ 1.6	—	—
Long Cloth Mill Made	Lahore	„	50-0-0	49-6-0	55-0-0	„	„	+ 1.3	− 9.1	—	—
White Mulls 8191 Japan ..	Karachi	Piece of 20 yds.	20-8-0	20-4-0	N. Q.	„	„	+ 1.2	—	—	—
Muslin ..	Lahore	„	25-8-0	24-8-0	36-8-0	„	„	+ 4.1	− 30.1	—	—
Drill Horrack EDX (Ordinary)	Karachi	Yard	N. Q.	N. A.	N. Q.	„	„	—	—	—	—
ute Raw—											
Middle ..	Narayanganj	Maund	N. A.	24-0-0	28-9-0	29-0-0	5-12-0	—	—	—	—
ute Manufactures—											
B. Twills 2½ lbs.	Karachi	100 Bags	181-0-0	178-0-0	185-0-0	119-8-0	27-0-0	+ 1.7	− 2.2	+ 51.5	+570.4
Wool Raw—											
Sind White ..	„	Mds. of 82 lbs.	M. C.	M. C.	N. Q.	100-0-0	34-0-0	—	—	—	—
Sind Yellow ..	„	„	„	„	100-0-0	N. A.	N. A.	—	—	—	—
Goat Hair Cleaned ..	Multan	Maund	85-0-0	90-0-0	70-0-0	„	„	− 5.6	+ 21.4	—	—
Sheep Pulled Cleaned	„	„	95-0-0	110-0-0	60-0-0	„	„	− 13.6	+ 58.3	—	—
1st Quality ..	Peshawar	„	185-0-0	195-0-0	N. A.	„	„	− 5.1	—	—	—

Commodity and Description	Market	Unit	Prices on or about (in Rs., As. and Ps.) 2/- 30-12-50	23-12-50	30-12-49	15-8-47	31-8-39	Percentage Change Over 1/- 23-12-50	30-12-49	15-8-47	31-8-39
Hides and Skins Raw— Cow Hides 2/25 lbs.	Karachi	Mds. of 82 lbs.	41-0-0	41-0-0	26-0-0	32-0-0	6-0-0	Nil	+ 57.7	+ 28.1	+583.3
Buffalo Hides 12/40 lbs.	„		31-0-0	31-0-0	20-0-0	25-0-0	5-8-0	„	+ 55.0	+ 24.0	+463.6
"Papras Firsts" 500 pieces of 700 lbs.	„	100 pieces	215-0-0	210-0-0	130-0-0	N. A.	50-0-0	+ 2.4	+ 65.4	—	+330.0
"Papras Seconds" 500 pieces of 700 lbs.	„	„	N. A.	N. A.	N. Q.	„	34-6-0	—	—	—	—
Goat Skins 85% Firsts 15% Seconds/1200 lbs.	„	„	340-0-0	335-0-0	280-0-0	„	N. A.	+ 1.5	+ 21.4	—	—
Kid Firsts 600-500 lbs.	„	„	170-0-0	160-0-0	115-0-0	„	39-1-0	+ 6.2	+ 47.8	—	+335.2
Cow dry salted ...	Dacca	Pound	1-6-0	1-5-0	0-7-0	„	N. A.	+ 4.8	+214.3	—	—
Buffalo dry salted ...	„	„	1-0-0	0-14-0	0-4-0	„	„	+ 14.3	+300.0	—	—
Goat Skin ...	„	100 pieces	400-0-0	400-0-0	175-0-0	„	„	Nil	+128.6	—	—
Kerosene— Elephant tins ...	Karachi	2 tins	10-2-0	10-2-0	10-4-6	8-13-0	5-13-0	„	− 1.5	+ 14.9	+ 74.2
-do- ..	Lahore	Per tin	6-5-0	6-5-0	6-10-0	N. A.	N. A.	„	− 4.7	—	—
Cement— Dalmia Portland ...	Karachi	Ton	95-4-6	95-4-6	95-4-6	70-0-0	30-0-0	„	Nil	+ 36.1	+217.6
	Lahore	Maund	N. Q.	5-0-0	5-5-0	N. A.	N. A.	—	—	—	—
Caustic Soda— (English) ...	Karachi	Cwt	19-5-0	19-5-0	22-0-0	22-8-0	10-7-0	Nil	− 12.2	− 14.2	+ 85.1
(American) ...	„	„	22-0-0	21-0-0	21-0-0	N. A.	N. A.	+ 4.8	+ 4.8	—	—
Coal— 1st Class Bengal Trimmed into Bunkers	„	Ton	90-11-0	93-11-0	90-11-0	79-0-0	19-0-0	Nil	Nil	+ 14.0	+377.3

CHAPTER XXIV

FINANCES OF THE STATE
(Pakistan's Central Finances).

1. Introduction .—The significance of the State finances has considerably increased during recent years. There was a time when the state was regarded merely as an organ of defence and law and order. During the last one hundred years the sphere of State activity has extended enormously, in the matter of regulation, control and even direct assumption of economic and social activities of the community. It was natural, therefore, that along with the extension of the sphere of its activities, the size and importance of the State's budget should also increase.

During the last generation or so the various countries of the world have passed through the ordeal of two major Wars which have involved expenditure on Defence reaching astronomical figures. These wars have further shown the scope as well as the limitations of state action, in the various fields of social and economic activity. The prosecution of these wars has meant an organized effort on the part of communities the dimensions of which were undreamt of before. This effort has directly or indirectly involved state action and expenditure through state departments. New methods and organs of finance have been developed, which have far reaching repercussions on the day-to-day life of every citizen.

How a State finances its activities, dealing with its short term and long term aims and objects, is a matter of very great importance to the economic set-up of a country. There are methods of finance which release potential energies for creative purposes; there are others which lead to the proverbial killing of the goose that lays the golden egg. There are methods of drawing out resources from private control which create inequalities for the various sections of the community and there are others that can introduce a greater measure of social justice. The choice has to be very carefully exercised.

The Soviet Union has familiarised us with the idea of 'Economic Planning'. There has been a lot of talk of Planning in the various countries of the world, especially since the great

Depression of the thirties put their economies out of gear. The recent World War destroyed much that was productive and led to distortions and frictions in the economic spheres of the countries that have received its impact. These economies were to be rehabilitated in which process the state had to play a major role.

Economic Planning under the aegis of the state is now universally recognised as the most effective method of dealing with the present economic problems. Finance must play a most important part in the planning; alternative ways of solving the financial problems of Planning must be intelligently studied and judiciously chosen.

Pakistan, as a new-born state, is faced with tremendous problems. We have a primitive agricultural economy and practically no industries worth the name. Consequently the standard of living of the people is almost at the lowest. If *laisses faire* has been rejected by the more prosperous nations, it is entirely out of date and out of question in our case. How far we shall be able to reconstruct and rehabilitate our economic system will depend on the zeal and initiative and resource shown by those who are controlling the destinies of our nation. In this connection the financial problem will be one of the basic problems to be tackled. We must carefully husband our resources for the service of the nation Public Finance is the method by which we can use our resources to the best advantage from the point of view of economic development.

In this chapter we shall make a study of financial resources allocated to the Central Government of Pakistan and the use that has been made of these resources so far. This will involve a broad study of the Budgetary position of the Pakistan Government since the partition and the analysis of the main heads of revenue and expenditure.

2. **Pakistan's First Central Budget, August 15 1947 to March 31st 1949.**—Pakistan's first budget was presented by the Hon'ble Mr. Ghulam Mohammad on the 29th February, 1948. Economic life of Pakistan was still in a disturbed condition, due to the after effects of the partition and Pakistan had not yet proved definitely that the prophecies of the prophets of darkness about her financial future were baseless. Pakistan's economy had received a rude shock on account of the partition and the events that accompanied and followed it. Trade, Commerce and industry was practically paralysed due to the migration of Non-Muslims who had formed the back bone of enterprise as

financiers, traders, and industrialists. The finances of the Central and Provincial Governments were bound to be adversely affected from the side of revenues. The main source of the Central Government being the Customs, the fall in foreign trade due among other things to the breaking up of the old trade connections with foreign countries was expected to reduce the revenues seriously. Income tax was affected due to fall in business activity and difficulty of collection due to migrations of some of the assessees and lack of staff. Railway and Postal Departments suffered losses due to similar causes. On the expenditure side there was the burden of the surplus staff, the greater needs of defence especially in view of events in Kashmir and the enormous burden of looking after the refugees, who were pouring in like a flood from the neighbouring dominion. It was expected that under these circumstances the Central as well as Provincial Governments would have to face a huge deficit.

The Central budget with which we are concerned here related to two periods. The period of 7½ months from 15th of August, 1947 to 31st of March, 1948 and the financial year 1948-49. As regards the remaining portion of the year 1947-48 the Finance Minister estimated a revenue of Rs. 20.63 crores as against the expenditure of Rs. 44.02 crores. This left a deficit of Rs. 23.39 crores for this period. No attempt was made to cover this deficit by additional taxation. Later according to Revised Estimate for this period however, the deficit was reduced to Rs. 10 crores because it was found that defence expenditure had been over-budgeted due to inadequate data available at the time. This deficit was presumably met from the balances of the government.

The position regarding the financial year 1948-49 was more satisfactory. On the basis of the existing taxes the revenue was estimated at 42.38 crores and expenditure at Rs. 52.49 crores giving a deficit of 10.11 crores for the year. To cover this deficit Finance Minister imposed new taxes which were estimated to bring an additional revenue of Rs. 10.16 crores. Thus it was expected that the year 1948-49 will close with a small surplus of Rs. 5 lakhs. The new taxes that were suggested included the imposition of the Sales Tax which hitheto had been a Provincial head but in consultation with the provinces was centralized. A portion of the yield, however, was to be allotted to the provinces of origin. Other taxes were: an increase on import duty on Raw

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Throughout this chapter (unless specifically stated) receipts from commercial Departments (Railway, P. & T.) are taken net.

was to cost Rs 1.5 crores. Some changes were made in the list of single point taxes and in the scheduled items which were liable to additional Sales tax at one point. While the rates of Sales tax were reduced in the case of cloth and watches and the tax was imposed at one stage only on edible oils the resulting loss of revenue was to be made good through increased rates on certain luxury items Thus some of the objections against the Sales tax were met. No change was made in the existing rates of direct taxation but the taxable minimum was raised from Rs. 2,500 to Rs. 3000. Certain additional concessions (over those inherited from pre-partition days) were granted in respect of depreciation on machinery and plant used in industrial undertakings. As a further encouragement to new industries, the import duty on machinery was reduced from 10 percent to 5 percent and import duty on iron and copper scrap was remitted. Further, the additional duty imposed in the previous budget on kerosene oil was remitted. Finally the export duty on sheep and goat skins was reduced by one half. The net result of these remissions and concessions was that the surplus of Rs 2. 26 crores was reduced to the nominal figure of 6 lakhs. But since the changes in export and import duty were to be enforced immediately an additional net revenue of Rs. 20 lakhs was expected in the year 1948-49 which yet had to be closed, thus raising its surplus to Rs. 63 lakhs.

The Revised Estimates of the year 1949-50 showed an increase in expenditure by Rs. 4. 26 crores due mainly to large expenditure on defence and civil works. The latter mainly due to the establishment of Central Road Fund. The revenue receipts, however, increased by Rs. 4. 43 crores due mainly to improvement in Customs revenue and earnings of the Pakistan Railways, thus increasing the surplus to Rs. 23 lakhs instead of Rs. 6 lakhs.

4. **Financial Year 1950-51.** On the basis of the existing rates of taxation the revenue receipts for the year 1950-51 were estimated at Rs. 75.28 as against revenue expenditure of Rs. 77.18 crores leaving a deficit of Rs.1. 9 crores. This deficit was however be to covered by additional taxation bringing in Rs. 2 crores and thus leaving a surplus of Rs. 10 lakhs. The decrease in the revenue for the budget estimates for 1950-51 over the revised estimates for 1949-50 was due to expected fall in the receipts from Customs because of the non-devaluation of the Pakistani rupee, in cases where import duty was levied on ad valorem basis. This fall was expected to be Rs. 3. 25 crores, but it was expected that this would be made up by improvement in railway earnings, income tax, central excise and certain other miscellaneous

heads. The expenditure for the budget estimates for 1950-51 was, however, expected to be higher than the revised estimates of 1949-50 by Rs. 2. 85 crores.

This was due to increase in most of the heads of expenditures except that of defence which was expected to show a fall of Rs. 90 lakhs. Expenditure on civil departments was expected to be more by Rs 3 crores, due to the expanding activities of the various departments.

Passing on to the taxation proposals made by the Finance Minister on the occasion of this budget we notice that an important step taken was the imposition of an Estate Duty under the Estate Duty Act passed during the previous Assembly session. The rates of this duty were included in the Finance Bill As regards the Sales Tax in addition to the exemption already made in the case of food grains, fresh milk, fresh vegetables etc. a further relief was given to the common man by exempting from this tax fresh fish and fresh meat. The Sales Tax on cement exports was already refundable and in the case of hides and skins the tax at the stage of sale to the exporter was remmitted and these articles were made taxable only at the stage of sales to the tanner. While the Business Profit Tax was to continue for another year, the Capital Gains Tax was to be discontinued with effect from 1st April, 1949. In the light of the general conclusion of the Public Investment Enquiry Committee, that the existing taxation was operating as a deterant to capital formation and investment in industry, the super tax rates for assessees other than companies were readjusted through a lower level for higher incomes. Income tax concessions were given in the case of donations to Qaid-e-Azam Memorial Fund. In view of the cheapening of the imports on account of the non-devaluation decision of the Pakistan Government, the Finance Minister thought that it would not be unfair for the Govt. to share in this benefit, especially in the case of certain luxury goods. Import duties on a few items were thus increased, among these were alcoholic drinks, cigarettes silk, art silk fabric, motor cars and motor cycles. Relief was given on articles which were either in short supply or were required for industries. Duties were reduced on mustard oil, jute manufactures, coir fibre, coir yarn, covered crucible for glass making, aluminium and copper ignots, pig iron and barytes. In the case of linseed oil both standard and preference rates were reduced. The duty on motor spirit was raised. The duty on kerosene which had been reduced by 1 anna per gallon during the previous year was restored. To facilitate the transmission of books the postal charges on book

packets were also reduced. It was thus that the deficit of 190 lakhs was converted into a surplus of Rs. 10 lakhs. It was however, expected that on account of the grant proposed for the Peshawar University this surplus would be further reduced.

The revised estimates for the year, however, increased this surplus to the remarkable figure of Rs 28.96 crores, the Revenue receipts increasing to Rs. 123.68 crores and expenditure to Rs. 94.72 crores. The increase in revenue receipts (by Rs. 46.40 crores) was largely due to increased income from customs i.e. from budgeted Rs 33.15 crores to Rs. 75.08 crores, an improvement of Rs. 41.93 crores. This was due to the greater demand at higher prices of our exportable raw materails especially raw cotton which last commodity was alone responsible for an additional coustom's revenue of Rs. 25 crores. Due to higher demand and soaring prices the Government was able to increase the export duty on cotton on 23rd October, 1950 from Rs. 60 per bale to Rs 180 per bale and again on 25th November to Rs. 300 per bale. A duty of 25% advolorem was imposed on the export of wool from 6th Decembere 1950, which was expected to yield another Rs. 20 lakhs. Part of the increased revenue from customs was paid to East Bengal due to a concession under which the receipts from the jute duty for the year 1949-50 and 1950-51 were pooled to apply the maximum limit of Rs. 3.50 crores as per share of the basic duty.[1] Even then the increase in Customs revenue was remarkable. Income Tax receipts increased by Rs. 3 crores due to an intensive drive for clearance of arrears, introduction of the system of provisional assessment on returns submitted, and lightening up of the collection machinery. The net yield from the sales tax increased by Rs. 1.8 crores due to increased volume of trade and commerce, higher prices and improvement in the collection of machinery. A crore of rupees was added as profits made by the Jute Board. To some extent these increases were counter-balanced by short falls under salt due to trade deadlock with India under Railways due to non-receipt from India of accumulated balances on account of cross and through traffic and under-

(1) Under the existing arrangements, East Bengal receives 62½ per cent of the basic Jute duty of Rs. 3 per maund subject to a maximum of Rs. 3.50 crores a year and the whole of the additional duty of Re. 1 per maund. Due to the trade dead-lock with India, exports of jute in 1949-50 were restricted with the result that the share of East Bengal for that year did not reach the anticipated amount. In the special circumstances, it is proposed as a concession to the Province to pool the receipts from Jute duty for the years 1949-50 and 1950-51 and thus apply the maximum limit to the average of the two years. This would result in an additional payment of Rs. 84 lacs to East Bengal in two current years." (Budget speech 1951-52).

currency due mainly to non-receipt of Rs. 1 crore from India as our share of the profits of the Reserve Bank of India for the year ending 30th June, 1948.

The increase in expenditure of Rs. 17.54 crores was due to (a) increase on account of Defence Services Rs. 10.70 crores. Of this, Rs. 10 crores was merely a transfer from the Capital Budget to the revenue budget. (b) Rs. 2 crores grant to the Punjab Government for flood relief (c) Rs. 1.09 crores under Civil Administration mainly due to grant of Compensatory Allowance to low paid staff with retrospective effect from 1st January, 1949; increased contributions made to the provinces towards the cost of Border police and provision of Rs. 50 lakhs (which again was a transfer from the Capital Budget to the Revenue Budget) for grants to provinces for Agricultural Development Schemes. Thus *increased expenditure was mainly due either to transfers from* the Capital Budget or for relief to Provinces. A provision of Rs 2 crores has been made in the R.E. for 1950-51 and B.E. for 1951-52) for the redemption of loans utilized for capital expenditure on unremunerative schemes which is sound finance.

In spite of all these generous provisions the Revised Estimates for the year 1950-51 as already noted, showed a huge surplus amounting to Rs. 23.96 crores. This surplus has been utilized by the Finance Minister as follows :—

Fund for Schemes of Social Uplift.		Rs. 7.0 crores.
Fund for Aircraft Factory and Heavy Gun Manufacture.		Rs. 5.0 crores.
Fund for Schemes of Economic Development.		Rs. 13.0 crores.
Refugee rehabilitation Fund.		Rs. 3.0 crores.
Total utilized.	...	Rs. 28.0 crores.
Surplus left.	...	Rs. .96 crores.
Total surplus obtained.		Rs. 28.96 crores

5. **Financial Year 1951-52.** On the basis of existing taxation the revenue receipts for the year 1951-52 come to Rs. 116.27 crores and revenue expenditure at Rs 96 53. The former is Rs. 7.40 crores less and the latter Rs. 0.81 crores more as compared with the corresponding figures for the Revised Estimates for 1950-51. Receipts have been budgeted with caution because there is no certainty that conditions that increased the customs receipts so enormously during 1950-51 would persist. Hence under this head Rs. 65.17 crores instead of Rs. 75 08 (of the Revised Estimates) have been budgeted. Increases, however,

are expected under Central Excise (Rs. 50 lakhs) and Sales Tax (Rs. 20 lakhs net). Estate Duty is estimated to yield another Rs. 40 lakhs. Increases are also expected under Railways and Currency (Rs. 1 crores due from Reserve Bank).

Revenue expenditure will be larger by Rs. 81 lakhs. But this conceals a much bigger increase because expenditure incurred on the Flood Relief grant to the Punjab (Rs. 2 crores) and transfer to the Refugee Fund (Re. 1 crore) is not to be repeated during 1951-52. The effective increase in expenditure thus is Rs. 3.81 crores.

The increased expenditure is mainly under Civil Administration (Rs. 2. 27 crores) to be spent on education, health and agriculture like the year *1950-51* during *1951-52* also larger amount (Rs. 10 crores) are budgeted for Defence in the Revenue Budget with a corresponding reduction in the Capital Budget. Pakistan is gradually reverting to the practice of undivided India before the last war to charge the whole defence expenditure to Revenue. It was only during the War that due to vast expantion of the Defence Services, a portion of this expenditure was allocated to revenue "In Pakistan" in the words of the Finance Minister "We were faced with the task of initially equipping and organizing our Defence Forces in the difficult circumstances arising from non-receipt of our share of Defence Stores from India, and have consequently been charging a portion of the Defence Expenditure to Capital[1]. With the improvement of our revenue position more burden of Defence is transferred to the current revenues. This is a wise decision because Defence Expenditure being not strictly productive does not create the means of paying off the debits incurred for it. We shall return to this subject later.

The gross surplus of Rs. 20. 74 crores arising on the basis of existing taxation has been utilized by the Finance Minister

1. Budget Speech *1951-52*. Page 9.

in the following manner :—

		Rs. Crores.
Fund for Schemes of Social Uplift.	=	3.00
Fund for Aircraft Factory and Heavy Gun Manufacture. ...	=	2.50
Fund for Schemes of Economic Development (Industrial, Agricultural and others).	=	3.50
Total.	=	9.00
Tax Relief.	=	1.44
Grant to Provinces for Social Uplift Schemes.	=	8.00
Refugee Rehabilitation Fund. ...	=	2.00
Total allocated.	=	20.44
Surplus left.	=	·30
Gross surplus earned.	=	20.74

From the allocations of the surplus of 28.96 obtained for the years 1950-51 (R.E.) and 1951-52 (B E.) it is clear that the Finance Minister has followed very sound canons of finance, of. the aggregate gross surplus of about Rs. 50 crores as much as 26.5 crores or more than half has been set aside in the form of Funds for Social uplift and economic development and a further Rs. 16 crores has been provided for giving grants for social uplift schemes to the Provinces. , This exhausts about 90% of the total gross surplus. Out of the remaining Rs. 5 crores has been contributed to the Refugee Rehabilitation Fund which again is for the economic and social uplift of the people. Rs. 10 crores has been formed into a fund for Aircraft Factory and Heavy Gun Manufacture and no one can say that this money has been badly allocated because this is a contribution for creating the foundations of our Defence within the country. It is only the paltry sum (compared to the enormous surplus available) of Rs. 1.44 crores. That has ben used to give tax relief, When we look into the forms in which this relief is given we find that its purposes are also very laudable. Most of this has been given as concessions to promote industrial enterprise and development in the Country[1] Super Tax rates have been again adjusted

(1) For details regarding concessions to industry see Chapter XIV Sec: II - page 286 of this book.

to lower levels for assessees other than companies; concessions have been made to investors in the from of exemptions both in income tax and super tax; the existing concession to industry in the form of exemption from income tax of profits up to 5% has been extended; the concession on new constructions first given in 1946 has been revived, customs duties on certain industrial raw materials have been abolished or reduced. As recommended by the Tariff Commission the Government have agreed to full rebate of duty on raw materials required in the manufacture of lanterns and grinding wheels produced in Pakistan and a promise has been made to consider sympathetically similar recommendations of the Commission for other industries.[1]

Further the general demand for imposing the Sales Tax at one point only has been accepted following the recommendations of the Sales Tax Committee appointed by the Government last year.[2] Exemptions from this tax have been granted to imported capital machinery and spare parts imported as part of initial equipment.

Nor has the Common man been neglected in giving relief. The standard rate of duty has been reduced from 54% to 40% and preferential rate from 40% to 23½% on such spices as Cardamoms, Cassia, Cinnamon, Cloves, Nut megs and peppers. Duty on Kerosene oil has been reduced by half an anna a gallon and on medicines from 37½% to 30%.

No new taxes have been imposed. The Business Profits Tax, however, has been extended for another year and so have been the taxes and duties imposed by the Supplementary Finance Act of 1950 for meeting expenditure on rehabilitation of

(1) Budget speech 1951-52page 23.

(2) The system of single point sales tax in the words of the Finance Minister will work as follows :—

"In the case of imports and exports, tax will be levied on the importer or the exporter as the case may be, on the basis of the value assessed for customs purposes plus the customs duty, if any, and in the case of goods manufactured in the Country on the basis of the Manufacturers' sales price. The single point tax will be secured by a system of licensing where by the licensed Manufacturer will be allowed to import raw materials free of tax. He would also be entitled to purchase material free of tax from a licensed wholesaler who would also be allow that concession. The licensed manufacturer and the licensed wholesaler will be assessed on sales made to persons who are not licensed. Similarly the importer will be taxed on his imports unless he is himself the licensed manufacturer or the licensed wholesaler" Budget Speech 1951-52 Page 20.

refugees. Exemptions from income tax of incomes derived from property held under trust or other legal obligations for religious or charitable purposes have been restricted in order that only bona fide charitable purposes are encouraged.

Certain charges have been made in the method of imposing duties Thus, hides and skins which were hitherto assessed on the basis of tariff values fixed for various varieties, will now be assessed on real values. This change has been widely criticised by the trade on the ground that it will make it difficult to allow for the duty at the time of making sale contracts and thus will introduce on element uncertainty. The matter requires detailed investigation in collaboration with the trade. On the whole it would appear that the Finance Minister has utilized the windfall of a surplus very wisely and with great sense of proportion. If the surplus persists perhaps next year more relief in taxation to the lower income groups will be justifiable. As it is our taxation structure has a tendency to be regressive on account of the inevitably greater reliance that has to be put upon indirect taxes as we shall see presently.

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(1) This Act passed in October, 1950, imposed the following taxes :—

(a) *Liquors Cigarettes and Petrol* Extra charge of two annas per bottle of beer, Ale Port or cider, eight annas per bottle increase in the case of Brandy, Gin and Whisky, an increase of 3 pies per 10 cigarettes. The cost of petrol per gallon was increased by a similar amount

(b) *Entertainment and Travel* 10% and 20% respectively on the existing rates of entertainment and betting taxes were levied as surcharge in additions. Cinemas were classified into three categories and a flat rate of tax was to be charged to each class. Travellers by air were to pay Rs 3/- on a fare not exceeding Rs 59/- and Rs 5/- in the case of fares exceeding that limit. Surcharge on Railways and Inland Steamer fares were enhanced by an anna in the case of *3rd class or Deck Passengers to* 8 annas for *First class.* Nothing extra, however, was to be charged on fares costing less than Rs 3/- Similar charges were introduced on freights and a toll on all freights by road was imposed.

(c) *Land Revenue.* Zemindars in Sind paying land revenue and water rates exceeding Rs 1,999/- were to pay 3 pies per rupee more and in N W F P, East Bengal and the Punjab where total land revenue payable exceeded Rs. 349/- a surcharge or cess varying from Rs 12/- to Rs 1000/- was to be levied.

(d) *Tax on Professions* Legal practitioners, income tax practioners, clearing and forwarding agents and contractors were to pay a tax ranging between Rs 20/- to Rs. 200/-. All shops (excluding temporary stalls and hawkers) were to pay Rs : 3/- a year and exporters and importers a license fee varying from Rs. 10/- to Rs. 1000/- a year

The value of revenue (receipts) stamps was increased from one anna to two annas and surcharge at the rate of 3 pies per telegram levied. Private cars and taxis were to pay Rs. 12/-, load carriers Rs. 25/- and buses Rs. 50/- per year. Toll on vessels plying inland water ways ranging from Rs. 100/- to Rs. 1000/- according to tonnage was levied

6. Growth of Revenue and Expenditure.

So far we have been concerned with the over all picture of our finances and have concentrated mostly on way the balance between revenue and expenditure has been obtained and how the exceptionally large surplus that has been revealed at the occasion of our latest budget has been utilised. Statistical balancing of the buget is no mean achievement in the modern world of deficit budgets, for a new State the financial foundations of which were being questioned in several quarters even before its birth. And this balancing has not been achieved through juggling with figures as is sometimes done. It has been achieved through the most straightforward methods of financing by keeping expenditure within the taxable capacity of the people. Further the balancing of the budget has not been at a static level. Our revenue receipts have shown a steady increase throughout the period of Pakistan's existence. Last year there was a sudden jump due to reasons already explained. The table below indicates the rate of growth of revenues and the expenditure of the Central Government.

Growth of Revenue And Expenditure

Year	Revenue Rs. crores	Revenue Index.	Expenditure Rs. crores	Expenditure Index.	Surplus+ Deficit— Rs. crores
1948-49 (R.E.)	58.70	100	58.27	100	+.43
1949-50 (R.E.)	75.45	129	75.22	129	+.23
1950-51 (B.E.)	77.28	132	77.18	132	+.10
1950-51 (R.E.)	123.67	210	94.71	162	+28.96 (+ .96)
1951-52 (B.E.)	116.27	198	95.52	164	+20.74 (+ .30)

Thus there was an increase in revenue receipts of about one third in the Budget Estimates for 1950-51 compared to the first complete post partition year, which became more than a 100% in the Revised Estimate for 1951-52 which latter were made with caution. Expenditure increased proportionately within revenues until in the Revised Estimates for 1950 51 it lagged considerably behind. After disposing of the major portions of the surpluses earned or estimated to be earned the actual surpluses have been reduced to the figures shown in brackets for the last two financial years. But increases made in expenditure in this way are represented mostly by the creation of Developmental funds as we have already noted. The Finance Minister, therefore, has followed the most orthodox methods of

finance and has rightly avoided risky experimentations during this critical period of our existence.

Main Sources of Central Revenue. So far so good when we examine the main sources of the revenues of the Central Government certain characteristics of our txation structure come to light which reflect the underdeveloped nature of our economy which cannot be a cause for self-satisfaction to us. The table given below sets for in percentages (a) the relative importance *of the various sources of Central Revenue and* (b) Changes that have occurred in this relative importance over time Indian figures for 1951=5 (B.E.) are given for comparison.

PERCENTAGE SHARE OF REVENUE RECEIPTS.

Heads of Revenue.	PAKISTAN 1948-49 (R.E.)	1949-50 (R.E.)	1950-51 (R.E.)	1951-52 (B.E.)	INDIA 1951-52 (B.E.)
Customs.	47.0	46.0	60.7	56.0	33.8
Central Excise.	9.0	7.5	5.2	6.0	16.9
Income Tax	10.4	10.5	7.8	8.5	30.3
Corporation Tax.	0.9	1.5	2.2	2.5	7.0
Sales Tax	6.0	7.6	6.3	7.0	—
Salt.	5.7	3.3	1.9	2.2	—
Others.	1.0	3.2	1.9	2.2	—
Total Principal Heads	80.0	79.6	86.0	84.4	—
Railways.	1.4	3.9	2.0	2.6	7.3
The Rest.	18.6	16.5	12.0	13.0	4.7
Total.	100.0	100.0	100.0	100.0	100.0
Total in Rs. Crores.	58.70	75.46	123.67	116.27	417.42

The above table reveals that our Central Government mainly depends upon Customs for its revenue receipts. The percentage was over 60 for 1950 51 (R.E.) and normally it is nearly half of the total, as compared to about one third in the case of India. Detailed figures reveal that of gross customs collections in 1948 49 (R.E.) about 80% were derived from Sea-Customs and 20% from Land Custom[1] for the year 1950-51

(1) Details are not available in the budget regarding the share in the total customs revenue of import and export duties respectively. The recent increase in the customs revenue, however, has been due to greater income from export duties.

(R.E.) the percentages were 90 and 10 respectively. This change was due to our greater trade with countries other than india after the non-devaluation dispute, our land borne trade being mainly with India. The relative importance of Customs has increased considerably during the last year but this may be only a temporary phenomenon due to abnormal stimulation to our exports enabling us to impose high export duties on our exportable raw material like cotton.

Upto the Budget Estimate of 1950-51 the income tax (including Corporation Tax) receipts were increasing faster than receipts from Customs. Thus between 1948-49 (R.E.) and 1950-51 (B.E.) while Customs Receipts increased by 20 per cent receipts from taxes on incomes increased by 46 per cent. As regards Corporation Tax alone through the revenue derived from it formed a very small proportion of the total revenue it was growing at quite a fast rate. Between the two financial years mentioned above receipts derived from it increased from Rs. 50/- lakhs to Rs. 455/- lakhs or by over 800%. Taking Corporation Tax and income tax together the receipts from them were 90% higher for 1950-51 (R.E.) and 100% higher for 1951-52 (B.E.). This is a good increase though Customs increased faster during these two financial years *i.e.* by 180% and 140% respectively. It is expected, however, that when normal trade condition are restored the rate of growth of our revenues from income will again be greater than that from Customs and other indirect taxes. This is bound to happen as our industrial development gathers momentum and directly taxable incomes increase. At the moment, however, we have to defend mainly on indirect taxes financing our Central Government's activities. Taxes derived from incomes from only about 10% of the total revenue receipts as against almost 40% in the case of India (B.E. 1951-52) and much higher percentages in the case of other modern countries as the following table reveals :—

PROPORTION OF REVENUE DERIVED FROM TAXES AND INCOMES.

(Figures for 1950-51 B.E.)

Country.	Units of Currency.	Total Revenue	Revenue derived from taxes on Incomes	3 as a percentage of 2
U.S.A.	$Millions.	37,306	28,764	77
U. Kingdom	£Millions.	3,898	1,778	46
Canada.	Millions $/	2,430	1,156	48
Australia.	£Million.	470	214	46
India.	Rs. Crores.	350	109	31
Pakistan.	Rs. Crores.	75	10	13

Dependence mainly on indirect taxes is not only a sign of undeveloped nature of the economy of a Country but it also indicates an unequal distribution of the tax burdens. Taxes on commodities and services tend to be regressive in character. In other words their burden tends to fall more heavily on lower income groups which goes against the canon of equality and justice which should be a feature of a good tax system. No doubt in Pakistan the Finance Minister has made all efforts to mitigate as far as possible this character of the tax system. Higher rates of taxes are imposed on business and need of the poor are exempted as far as possible from duties. But in a poor country if only business are taxed the consumption of which is relatively small the tax proceeds will not be enough even to run the routine machinery of Government. Moreover, the demand fot business being inelastic too high a duty on them may dry up the source through falling off in demand. Further it is impossible to draw a line between the needs of the poor and needs of other classes. The very basic necessity of life may be exempted but even this term is elastic in its connotation. It is, therefore, almost impossible to make an indirect system of taxation both productive and equitable. The only remedy is the long term one of developing the resources of the country and creating expanding, sources of incomes which could be directly taxed. The statistics of Corporation and Income tax reveal that these sources are becoming more important as time goes on but the rate of their growth needs further acceleration and we hope the Government is doing all it can in this connection.

Central Excise Duties and sales tax are other two important sources of Central Government's revenues. They both fall in the category of indirect taxes like Customs. The difference is that they are more reliable than Customs as sources of revenue because they depend more upon economic conditions, within the country. Customs revenue is liable to serious fluctuations especially that proportion of it which is derived from export duties upon a few raw materials like raw jute and raw cotton, raw wool and raw hides and skins. The demand for these products in the international market is subject to violent fluctuation and ever dependence on them, especialy when their destinations are only a few countries, is not a point of strength for our economic or financial structure and needs rectification through greater diversification as regards commodities and markets. Moreover, with greater industrial development and increase in the degree of our economic sel[illegible] [illegible]rms

revenue is likely to go down. But with increase in internal consumption and trade the revenue from excise duties and Sales Tax will increase.

The revenue derived from Central Excise Duties is detailed below :—

CENTRAL EXCISE DUTY,

Commodities.	1948-49 R.E. Rs. Lakhs.	1951-52 B.E. Rs. Lakhs.	Increase 1951-52 (B.E.) over 1948-49 (R.E.) Rs. Lakhs
Motor Spirit and Kerosene.	33	1,60	+127
Sugar.	22	30	+8
Matches.	11	10	−1
Tobacco.	190	2,81	+91
Betel nuts.	90	1,00	+10
Tea.	50	70	+20
Cotton Cloth.	120	54	−66
Other items.	5	4	−1
Total.	5,21	7,09	+188
Refunds.	−1	−9	
Net Receipts.	5,20	7,00	+180

Income from this source increased by 35% during the period under review. The most important sources are excise duties on tobacco, motor spirit and Kerosene oil and betel nuts, which together accounted for 77% of the total revenues from this source. Apart from Motor spirit separate figures for which are not given in the budget the rest of these taxes is mainly on items of common man's consumption. The taxes, therefore, is highly regressive. Tax on tobacco which is the leading item is desirable on the ground that discouragement of its consumption is good from the point of view of peoples' health. The income from excise duty on cotton cloth has fallen presumably because of exemptions given on cheaper varieties which is to the good.

The sales tax has been a subject of controversy from more than one point of view. In the first place this tax was a provincial source of revenue according to the allocations made by the Government of India Act, 1935. This and the Estate Duty recently imposed were taken over by the Centre though on a temporary basis. This tax is collected by the Centre and is shared with the provinces of origin on 50 : 50 basis. This was

necessitated by the serious fall in the revenue resources of the Centre on account of the meagre yield of Income tax receipts in Pakistan. It is hoped that as the finances of the Centre improve this expanding source of revenue will be restored to the Provinces. The other point of criticism brought against this tax was the miltiplicity of points at which it was originally collected. This led not only to inconvenience of collection and opened up loop holes for corruption and evasion but also increased its burden since the same article paid the tax again and again as it changed shape and hands In the last budget as we have already noted the tax has been made a single point tax. But the flat rate of 10% within higher rates for business appears to be a very heavy charge and contributes considerably to the regressive character of our system of taxation. It is good, however, that certain important articles of common use especially foods and essentials of industrial development have been exempted from this tax.

Another unpopular tax is the tax on salt which was completely abolished by the pre-division Government of India after a long agitation against it. Pakistan was forced to re-impose this tax and now it forms about 2 per cent of the total Central revenues. The tax is highly regressive and being on a basic necessity of life cannot be easily evaded. But the total amount of tax paid per head of the population is about 5 annas a year which is not a heavy burden even on the common man. Saving of 5 annas a year per head or Rs. 1/8/- per family a year will not make any significant improvement in its purchasing power while it gives about Rs. 2½ crores to the Central Exchequer which can be usefully employed for promotion of common welfare. We do not, therefore, favour the abolition of this tax.

The Items above considered exhaust the principal sources of revenue. In addition the Government derives about Rs. 3 crores from the Railways and about 10 lakhs from the Post and Telegraphs Deparment. The railways have shown remarkable improvement and we have already discussed their finances elsewhere. The income from the Post and Telegraph is only of minor importance and have only become positive from the year 1950-51.

The remaining sources which form about 12% of the total revenue are constituted by incomes derived from what are usually provincial heads but relate to Centrally administered areas e.g. land revenue, Provincial Excise Stamps etc. Their receipts mainly relate to Karachi and some to Baluchistan. A sum of

Rs. 100/- lakhs in the Revised Estimates for 1950-51 and Rs. 20 lakhs for Budget Estimates 1951-52 are accounted for by the receipts under the Supplementary Finance Act of 1950, the details of which have already been given by us.

8. **Main heads of central Expenditure.** The Expenditure of Government is of two categories (a) Revenue Expenditure and (b) Capital Expenditure. Revenue Expenditure in incurred normally from the current proceeds derived from taxes, fees or incomes from Government enterprises or property. Capital expenditure is undertaken from money collected through loans floated by the Government. We ignore here the expenditure that some Government incur usually for financing of War through printing currency notes which is the worse kind of inflation and inequitable taxation of the people. Our Government has never likely to be so unwise as to do so.

To take the revenue expenditure first we have already seen how this expenditure has increased since the partition by about 65% though revenues have increased by 98%. The table below indicates the proportion of the total expenditure incurred upon some important individual heads:—

PERCENTAGE SHARE IN THE TOTAL REVENUE EXPENDITURE OF VARIOUS HEADS.

	PAKISTAN				INDIA
Heads of Expenditure.	1948-49 R. E. % of total.	1949-50 R. E. % of total.	1950-51 R. E. % of total.	1951-52 B. E. % of total.	1951-52 B. E. % of total.
Direct Demand on Revenue.	3.0	2.8	2.5	2.7	3.9
Debt Services.	4.0	5.0	6.6	6.6	9.9
Civil Administration.	18.0	18.0	18.2	20.4	15.0
Civil Works.	1.0	2.0	1.2	1.1	3.6
Defence.	70.0	67.7	64.0	65.0	48.0
The Rest.	4.0	4.5	7.5	4.2	19.6
Total.	100.0	100.0	100.0	100.0	100.0
Total expenditure in Rs. Crores.	58.27	75.23	94.71	95.52	375.43

Direct demands on Revenue represents the direct expenditure incurred on the collection of the revenue already considered. "Debt Services" is the interest and other charges on loans incurred by the Centre and interest on unfunded debt.

For the year 1950-51 (R.E) and 1951-52 (B.E.) a sum of Rs. 2 Crores each has been set aside for amortisation of debt relating to Capital Expenditure incurred on unremunerative objects.[1]

Civil Administration which accounts for about 20% of the total expenditure on the Central Assembly, Ministries and Central Services including the services relating to the Centrally administered areas of Karachi and Baluchistan which constitute general administration. These exhausted about 16% of the total expenditure under Civil Administration in 1951-52 (B.E). Police took about 8% and Education, Public Health Agriculture, Industries, Co-operative etc., together took about 20 percent. Another 30% was spent upon the Frontier Regions for various protective and Welfare Services and the balance of about 25% on miscellaneous services of all kinds. The Civil Administration includes department of Common Social Welfare as well as protective and strictly administrative departments. If welfare services are expanded more expenditure will have to be incurred under this head.

The most important central Head of Expenditure is Defence. It has been widely objected (perhaps due to the habits formed under the alien rule of pre-partition days) that Pakistan is spending over too much on Defence. If by this it is meant that Defence Expenditure forms a high percentage of our total expenditure no one can quarrel with this statement of an obvious fact But if it is implied that we are spending more than the needs of the state require this would be an irresponsible statement. How much is required to ensure the security of the state is a technical question on which only military experts can pronounce a judge and we trust the Government of Pakistan is not spending these huge amounts without expert consultation and guidance. It is, however, regrettable as admitted by the Finance Minister himself several times, that we have to lay aside such a huge proportion of our resources for ensuring our independence. According to the table given earlier we spend about 65% of our total revenue expenditure on Defence. In some years it has gone up to 70%.

Apart from this revenue expenditure additional sums spent under this Head in the capital Budget. The table given below gives the aggregate expenditure on Defence as a percentage of total Expenditure including Revenue and C[illegible]

(1) See the Central Budget (1951-52) Page 21

Aggregate Defence Expenditure

Year	Total expenditure Revenue & Capital Rs. crores.	Total Defence Expenditure Revenue & Capital Rs. Crores.	Defence Expenditure as per centage of Total Expenditure.
1948-49 (R. E)	98. 22	61. 39	60. 4
1949-50 (R. E)	110. 38	75. 60	68. 5
1950-51 (R. E)	115. 48	74. 24	64. 3
1951-52 (R. E)	143. 92	79. 39	55. 2
India (1951-52)	558. 59	192. 99	33. 0

Thus we are spending between Rs. 70 to 80 crores a year on Defence. The percentage has come down during 1951-52 not because there has been reduction in Defence Expenditure, but because there has been an increase of about Rs 14½ crores in Capital Expenditure under State Trading Schemes. The Defence Expenditure has been the highest for 1951-52 (B. E) so far.

Some adjustment, however, has been made in the allocations of Defence Expenditure as between revenue and Capital Accounts. Defence Expenditure under Capital account has been decreased by Rs. 10 crores for each of the financial years 1950-51 (R. E) and (1951-52) (B. E.) and a corresponding increase has been made under Revenue Account. This as we have already noted, is a step in the right direction. Attempts should be made to have capital expenditure only on schemes, which are productive in the long run and will pay off the debts incurred to finance them. The rest must come from current revenues.

It will be interesting to compare Defence Expenditure in Pakistan with that in some other countries. As the table given above indicates India spends about 2½ times more on *Defence* compared to Pakistan though it is only 33% of her total Expenditure taking revenue and capital budgets together. Cost of Defence does not increase in great proportion to the size of the country or the magnitude of its revenue resources. A certain minimum has to be spent whatever the total revenues and hence the percentage is higher for nations with more limited resources.

(1) Excludes Capital expenditure under currency.

The table given below compares the Defence expenditure as a percentage of total Revenue Expenditure in some countries of the world.

Country 1	Units of currency 2	Total of expenditure 3	Defence Expenditure 4	4 as percentage of 3
U.S.A.	$ Millions	42,439	13,837	33
U.K.	£ Millions	3,445	781	22
Canada	$ Millions	2,410	425	11
Australia.	£ Millions	505	175	34
U.S.S.R.	Billion Roubles	428	79	18
India.	Rs. crores	375	180	48
Pakistan	Rs. crores	95	62	65

Thus of all the countries Pakistan spends the highest proporation of its budget on Defence, India comes next This indicates meagre total resources of these countries rather than too high an expenditure on Defence.

High expenditure on defence leaves an inadequate margin for expenditure on social uplift and economic development. It may be agreed that the developmental and beneficent activities ... the jurisdiction of the provinces. ... proportion of the total expenditure in the provinces is spent on what may be called beneficent or welfare activities. Quite a high proportion even there is spent on the maintenance of law and order which is the internal aspect of security. If we add all this money to the money spent on Defence and on similar items (Police, Judiciary jails etc) by the centre we come to the following table:—

Central and Provincial Expenditure

Budget Estimates 1951—52

Rs. crores (1)	Total Expenditure (2)	Expenditure on law and order (3)	Exp. on Defence (4)	Total of 3 & 4 (5)	5 as percentage of 2
Central Government.	95.52	5.57	62.00	67.57	70.7
Provincial Governments.					
Punjab	21.63	4 13	...	4.13	19 1
N.W.F.P.	4.62	1.26	...	1.26	25 1
Sind.	7.93	1.8	...	1 80	22.7
E. Bengal.	20.96	4 83	...	4 8	21 4
Total Provinces.	55.13	12.12			
Grand Total	150.67	17.69			

Thus the provinces spent from one quarter to one fifth of their budgets on law and order and the counrry as a whole spends over half of its entire revenues on security services. Establishment of peace and security is the most primary function of a Government. The needs of defence, law and order therefore must receive the top most priority in the allocation of expenditure. The undeveloped resources of the country must be fully exploited to raise the standard of living of the people. To fully exploit them you require increased expenditure for developmental purposes. Thus a vicious circle is created which must be broken. The only method is to utilise the savings of the people, meagre though they may be, through floating loans and increasing capital expenditure of the Government.

9. The Central Capital Budget: The table below sets forth the expenditure of the Pakistan Government under capital account. We are again giving revised estimates (except for the latest year) which are nearer the amounts actually utilised than the budgeted figures.

EXPENDITURE ON CAPITAL ACCOUNT

Heads of Expediture	1948-49 R.E. Rs. Lakhs	1949-50 R.E. Rs. Lakhs.	1950-51 R.E. Rs. Lakhs	1951-52 B E. Rs. Lakhs	Total Rs. Lakhs	% of total under each Head
Railways	3,26	2,39	5,30	6,67	17,62	6·9
Post and Telegraph	41	49	51	83	2,24	·9
Salt.	7	2	...	...	9	...
Irrigation.	7	12	7	8	34	...
Agr Imp. and Reserch.	...	...	...	201	102	...
Industrial Development.	...	112	2,77	251	640	2·6
Civil Aviation.	28	82	53	60	223	...
Broad Casting.	13	37	24	13	87	...
Currency.	4,78	54,04	22.63	31,93	113,34	44·0
Civil works	1,91	2.96	2,68	4.20	11.75	4·9
Commuted value of Pensions	1	3	2	2	8	...
Purchase of annuity for payment of Sterling Pensions	10,38	—33	—26	—26	9,53	3·9
Printing Presses	34	13	43	41	1,31	...
Defence.	21,11	24,70	13,54	17,39	76,74	29·8
Schemes of State Trading	44	1.12	—5,24	14,37	10,69	4·1
Grant to Provincial Governments for Agricultural Development.	1,50	1,15	...	...	2,65	...
Federal Capital	...	·9	...	30	31	...
Civil Defence	...	...	...	...	..	...
Ports	...	...	15	12	27	...
Total	44,72	89,16	43,40	83.43	257,71	100·0

It will be seen that out of the total expenditure incurred so far about one third has been on Defence Account and something less than half has been under currency. The figure of capital expenditure has been considerably inflated due to large provisions under currency. This latter provision includes the following items :—

(*a*) Rs. 54 crores (1949-50 R.E) payment in the form of Government Securities to the State Bank to cover short falls in its currency and other reserves arising from depreciation of the pound sterling and the Indian rupee. Another payment of Rs. 14.85 crores was made on the same account in 1950-51 (R.E.) This total of Rs. 69 crores is not strictly speaking capital expenditure. It is a filling up of the gap caused in assets when valued in terms of the Pakistan rupee by governments promises to pay. Rs. 5.90 crores payment made to the World Bank (1950-51 R.E) in respect of Pakistan's membership in the form of non-interest bearing negotiable treasury notes. A further sum of Rs. 31.60 crores is a payment in the form of treasury notes to the International Monetary Fund as Pakistan's subscription. These contributions also are not strictly speaking capital investments and come to a total of Rs. 37.5 crores.

If we deduct these Rs. 106.34 crores from the total expenditure the balance of Rs. 151.37 was spent as follows :—

Head	Total capital expenditure in four years under this head Rs. crores	percent of total	percent of total expenditure
Railways	17.62	11.4	11.6
Industry and Agriculture	10.07	6.5	5.0
Civil Works	11.75	7.6	7.7
Defence	76.74	50.0	50.6
State Trading	10.69	7.0	7.1
Others	27.15	17.5	18.0
Total	154.02	100	100

It will be seen that half the capital expenditure so far has been on defence, just over 10% on Railways, less than 10 per cent each on State Trading and civil works and 6.5% on agriculture and industrial development the last one rather a meagre amount. Under "others" is included the purchase of assessments from the British Government on which Rs. 10.38 crores were spent in 1948-49. Out of this, the government of Pakistan receives about Rs. 26 lakhs a year for making payment of pen-

sions to British Servants of Pre-partition days. The assessments will taper off with your Expenditure under civil-works is incurred for building government offices and houses and quarters for government employees and refugees in certain places. We have already given details of expenditure on Railways and need say nothing more about Defence.

There remain industry, agriculture and State Trading. On Industry there has been a total capital expenditure (including provision for 1951-52) of Rs. 6.40 crores since 1949-50 (R.E.). This is governments contribution to the industrial development of the country, and has been spent among other things purchase of machinery and equipment for Government textile mills (two woolen and three jute mills) and a paper-mill. This also includes a sum of Rs. 1.53 crores as Government Share of the capital contributed 1949-50) of Industrial Finance Corporation. As regards Agriculture the sum of Rs. 1.02 crores provided for the year 1951-52 is government's share in the capital of the Agriculture Development Corporation. This is apart from grants to provincial governments for Agricultural Development (Rs. 2.65 crores) which up to 1949-50 were made from capital account but from 1950-51 (R.E.) has been transferred to the revenue account.

The Expenditure under State Trading was a minus figure for 1950-51 (R.E.) and would again have been a minus figure for 1951-52 due to recoveries on the account. The net recoveries (after allowing for a transfer of Rs 1 crores revenue as profit on the purchase transactions of the jute Board) was Rs. 5.24 crores for R.E. of 1950-51. The net recovery estimated for the year 1951-52 (again after allowing for a similar transfer of Rs. 1 crores on account of Jute Board's profits) is Rs. 3.63 crores. But in the Budget for 1951-52 and additional amount of Rs. 18 crores has been provided for the purchase of essential stores for stock piling in accordance with the decision on the supply committee's recommendations. It is thus that the net provision under this head comes to Rs. 14.37 crores for 1951-52.

The general impression left after a detailed study of the capital budget as of the revenue budget is that development schemes do not receive adequate shares of finance, again because of the more pressing claims of defence and other essential expenditure. Ultimately it is the poorly developed resources which are the cheap bottleneck in the way of their own development. This vicious circle must be broken by hard work and austere living on the part of the people and fruitful plann-

ing on the part of the Government. The process will necessarily be slow and will require all the patience that we can command.

10. Public Debt of the Centre. The Public Debt of Pakistan (to which the Centrel [illegible] into two broad categories (a) Debt [illegible] days and payable to India (b) Loans [illegible]

The first category of Public Debt was assumed by Pakistan under the Financial Agreement reached with India on 12th December 1947, under which the assets and liabilities of the pre-division India were divided between the two Dominions. It was agreed that immovable assets would become the property of each Dominion according to their location. Corresponding liabilities were to be assumed according to their book value. As regards liabilities in respect of loans, guarantees and financial obligations as outstanding at the time of the partition, it was agreed that these would be taken over, in the first instance, by the Government of India. Pakistan was to pay the share appropriated to her as provided under the agreement and as calculated according to the principles laid down in the agreement. The exact share payable by Pakistan has not yet been determined because the complete balance sheet of the assets and liabilities of India on the eve of partition has not yet been finalised.

It may be noted, however, that the liabilities were of three kinds (a) those which had corresponding assets yielding interest (b) those which were not covered by any assets, known as 'uncovered debt' (c) liabilities against which the government had cash and securities held on treasury account. Each category of the liablities were divided in a different manner as agreed upon.

As regards the first category the most important assets covering these liabilities were railways, post and telegraph and telephones and loans advanced to the provinces, Indian states and Burma. The total value of such interest yielding assets was Rs 1000 crores out of a total debt of Rs 2207 crores as outstanding on 1st March 1947. Among the interest yeilding assets the most important was the capital at charge on railways. It was decided that each country should hold liabilities for the book value of the railways located in it with the exception that the book value of the strategic portion of the N.W.R which was located in Pakistan should be reduced by one half. Pakistan liability on this account was therefore reduced from the book value of Rs 32 crores to Rs 16 crores. The basis of division in the case of

other commercial Departments was the same as in the case of railways. As regards loans advanced to provinces and States each dominion was to be responsible for the liability of provinces or State located in its area. No reference was made in the agreement to the debt due from Burma.

The uncovered debt was due mainly to expenditure as wars and famines during the British rule. The only assets against this were the military stores of which Pakistan was to receive one third of their amount as on 15th August 1947. The Government of India only transferred a small portion of them and refused to transfer more on the ground that they were being used against her in Kashmir. This was one of the many instances in which the Government of India refused to honour obligations under-taken by her by allowing political considerations (imaginary or real) to interfere with contractual obligations. In addition to one third of the stores Pakistan was to receive Rs 6 crores in cash as a lump sum for erecting ordinance factories, a mint and a security press in Pakistan, because all these immovable assets were located in India and could not be physically shared. The total uncovered debt of the government of India in March 1947 amounted to Rs 867 crores. According to the Financial Agreement of December 1947 the share of Pakistan in the uncovered debt less the amount due in lieu of ammunition factories and currency and printing press was to be 17.5 per cent of the total. According to the Indian Finance Minister the total of Pakistan's public Debt to India comes to Rs 300 crores.(1) According to the Pakistan Government, however, the application committee appointed for working out the financial effects of partition has not yet finalised its work and it is not therefore possible to determine the amount due to India. (2) The unreceived military stores and other unhonoured obligations of India will naturally have to be taken into account before a balance is struck.

A word may be said about the method of payment. The government of India was to assume the responsibility of payment of interest and principal to the holders of the Government secutities issued before August 1947. The Govetnment of Pakistan was to pay their share of the debt with interest in equal annual instalments spread over a period of fifty years. The first instalment was to be paid from the fifth year after partition *i.e.* 1952.

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(1) Budget Speech of the Indian Finance-minister (1958-49)
(2) Budget of the central Government of Pakistan for the year 1951-52 p. 29.

Thus for the obligation arising out of predivision public Debt. Since the partition Pakistan's Capital expenditure has been financed from the cash balances and securities received as Pakistan's share of the assets and the loans floated by the Government of Pakistan within the country. We have already discussed the share of sterling balances received by Pakistan. These have stood us in goods stead especially in supplying external finance. As regards the cash balances received under the Financial Agreement of December Pakistan's share came to Rs 75 crores as against India's Rs 325 crores. The sum of Rs 75 crores roughly was 17½ per cent of the total cash balances of undivided India. Out of this sum Rs 20 crores had already been transferred to Pakistan at the time of Partition. India again refused to transfer the balance of Rs 55 crores on political grounds. It required a fast on the part of the father of the Indian Nation (Gandhi) to force the hands of the Indian Government to honour its obligation to Pakistan.

As regards borrowing on the part of the Pakistan Government remarkable success was achieved. Between Feb: 1948 and end of March 1949 the Government of Pakistan was able to borrow Rs 70 crores from within the country. During a whole year 1949-50 the Government of India was able to float loans only to the value of Rs 40 crores. This contrast is explained by the confidence that the people of Pakistan had in the soundness of their new State. Even writers otherwise not very sympathetic to Pakistan have to admit that "the enthusiasm of Muslims for their new State must be considered above all as the most importrnt factor in the successful borrowing policy of the Government of Pakistan." (1)

Upto the present time the Government of Pakistan has floated loans to the value of Rs 95.2 crores which constitute the Permanent Outstanding Debt of Pakistan. The details of these

(1) M.T. Desai in Vakil's Economic Consequences of Divided India P. 492

loans are as under :—

Details of Loans	*Year of Maturity*	*Amount Rs crores.*
$2\frac{3}{4}$ % ,,	1953-54	31.83
$2\frac{3}{4}$ % ,,	1955-56	13.40
$2\frac{3}{4}$ % ,,	1956-57	6.95
$2\frac{3}{4}$ % ,,	1958 59	10.30
$1\frac{1}{2}$ % (Income Tax Free Bearer Bonds)	1958	.08
3% Loan	1960	12.74
3% ,,	1963	3.02
3% ,,	1968	14.46
3% ,,	1969-70	2.33
	Total	95.20

The details of the floating and unfunded debt of the Government are given in the appendix which also sets forth the over all financial position of the government.

11. Conclusion A review of the central finances since the partition indicates a very sound financial position of the Central Government. Revenue receipts have incurred steadily at first and more recently with a sudden jump. Though this fact should not mislead us Expenditure has been kept within the taxable capacity of the people. Capital expenditure has been incurred either from internally floated loans or balances available in the country or abroad. Methods of inflationary finance have thus been scrupulously avoided.

As regards the sources of revenue no doubt too much reliance has been put on indirect taxes but this is inevitable so long as the resources of the country remain underdeveloped. The government however, has tried to give relief to lower income groups and concessions to industry to promote investment in productive enterprises.

On the expenditure side, under the present circumstances, there is a high essential minimum which must be spent on Defence. The result is that the margin left for development programmes is meagre. The government has been giving attention in increasing degrees to the necessities of promoting industrial development and it is hoped that with the implementation of these schemes under the Colombo Plan, in which external help is also anticipated, the pace of development of the country will be accelerated.

Apart from the material assets the greatest asset available to the Pakistan government is the unbounded enthusiasm and loyalty of the people of the country to their new State as expressed among other things by their readiness to bear heavy taxation burdens and to contribute so readily to the loans floated by the government even at the expense of stinting their already meagre living standards. It is hoped that our Government will capitalize this great fund of good will of the people in the interests of the strength and prosperity of the country.

CHAPTER XXIV. APENDIX 1

(a) REVENUE

Sources of Revenue Heads of Expenditure of the Central Government,

Principal Head of Revenue.	1948-49 R.E. Rs Crores	1949-50 R.E. Rs Crores	1950-51 R.E. Rs Crores	1951-25 R.E. Rs Crores	% of the total in 1951-52 R.E.
Customs	27.50	34.75	75.08	65.17	56%
Central Excise	5.20	5.75	6.50	7.00	6%
Income tax & Corporation Tax.	6.50	9.00	12.50	13.00	11%
Sales Tax	3.50	6.00	7.80	8.00	7%
Salt	3.30	2.50	2.40	2.50	2.2%
The Rest.	12.70	17.4k	19.39	20.59	17.8%
TOTAL	58.70	75.47	123.67	116.26	100.%

(b) EXPENDITURE

Principal Heads of Expenditure	1948-49 R.E. Rs Crores	1949-50 R.E. Rs Crores	1950-51 R.E. Rs Crores	1951-52 R.E. Rs Crores	% of the Total n 1951-52.
Direct Demands on Revenue	1.68	2.13	2.43	2.58	2.7%
Debt Services	2.50	3.76	6.25	6.31	6.6%
Civil Administration	10.36	13.61	17.26	19.53	20.4%
Civil Works	.58	1.50	1.15	1.08	1.1%
Defence	40.28	50 90	60.70	62.00	65%
The Rest	2.87	3.33	6.92	4.02	4.2%
TOTAL	58.27	75.23	94.71	95.52	100.0%

APENDIX 11

Consolidated Position of the Government of Pakistan regarding Receipts and Disbursements (1951-52 R.E.)
Heads of Account :—

	Receipt Rs Crores	Disbursements Rs Crores	Balance Rs Crores.
Revenue Account	116.27	114.52	+ 1.74
Capital Account	—	80.33	−80.33
Treasury Bills	57.62	57.88	− 0·26
Other Floated Debt	100.73	69.14	+31.59
Unfunded Debt	16.02	13.52	+ 2 50
Deposits and Advances	87.52	87.99	− .47
Loans and Advances by	8.43	13.13	− 4.70
The Central Govt			+ .20
Remittances	381.50	381.30	− .20
Transfer of cost Between Eneland and Pakistan	27.80	27.85	− .05
Total	795.92	845.70	−49.78
Opening balance	76.50		
Total	872.42		
Disbursments	845.70		
Closing Balance	26.72		

CHAPTER XXV

FINANCES OF THE STATE

Pakistan's Provincial Finance.

1. Financial Decentralization.

Financial and political developments were closely connected in India during the British rule. Upto 1921 while the Government of India was resposible to the British Parliament the provinces were merely the agents of the central government. The Centre laid the policy which the provinces had to carry out. The same position held good regarding finance. The whole of British India was regarded as one financial unit and the Government of India was responsible for the financial security and public debt of the whole country.

This centralized system of finance began as early as 1933 and though for a long time the need for decentralization was felt, in view of the large size of the country and different needs of its different parts, financial decentralization could not be introduced until the political power was also decentralized. Under such conditions the powers of taxation were inevitably kept in the hands of the centre, though in the matter of expenditure increasing discretion was given to the provinces. For meeting the various financial needs of the provinces financial resourses were allotted to them on the basis of settlements beginning from 1870 and revised periodically with changing conditions. In the words of Prof. Vakil, "The revenues of India were raised on lines laid down by the Central Government and were treated as one central fund. For purposes of expenditure, the provinces were comparatively free within the terms of a settlement for the time being in force. The Central Government thus obtained some administrative ease in expenditure while yet retaining its general control as required by Parliament."[1]

The Reforms of 1921 introduced what is called the system of Diarchy in the government of the provices. Certain subjects were 'Transferred' to the control of provincial ministers,

(1) C.N. Vakil. Finance under Provincial Autonomy.

responsible to the new provincial legislatures and others were kept as 'Reserved'. The functions of the Provincial and the central governments were more clearly defined. The revenues of the country were also divided into Central Heads and Provincial Heads. The central government was assigned Income tax, Customs, Commercial stamps, Railway receipts, Salt, Opium, and Posts and Telegraphs. The Provincial Government were given Land Revenue, Irrigation, Alcoholic excise, Forests, Court Fee Stamps and Registration Fees. The Provinces were given borrowing and taxing powers which so far they had lacked. Among the new taxes that the provinces could impose and which were put in a schedule later known as the 'Sneduled taxes' were taxes on betting, Amusement, Advertisements, and Succession Duty and Taxes on Land put to non-agricultural uses.

On the basis of this distribution of resources it was estimated that the centre would be faced with a deficit of Rs. 9 crores and the provinces would have a surplus of Rs. 18 crores. The balance was restored, following the recommendations of a Committee presided over by Lord Meston, through what is known as the 'Meston Award'. Under this 'Meston Award' or 'Meston Settlement' the provinces were required to make contributions to make up the deficiency in the central revenues. This Award was widely criticised and led to considerable inter-provincial jealousies and frictions and had to be abandoned after a few years. The main defect of this distribution of the sources of revenue between the centre and the provinces was that while the centre was given expanding sources like Customs and Income Tax the sources allotted to the provinces had very little scope for expansion. For instance, the Land Revenue the main source was already too much of a burden on the agriculturist. On the other hand while the central obligations, at any rate in peace time, were more or less fixed the financial responsibilities of the provinces related to welfare and developmental activities like education, health, development of agriculture and industries, for which larger and larger amounts of money were bound to be required with the growth of population and the spread of political consciousness among the masses.

As a result of the Reforms of 1935 the entire field of provincial activity was put in charge of responsible ministers. With provincial autonomy the necessity of financial autonomy was also realised. This involved the right to levy taxes and to incur expenditure by the Provinces in accordance with the desire of the popularly elected assemblies. It was obvious, therefore, that with the expanding activities of the provinces

adequate financial resources must be placed in their hands. It was necessary not only that the provinces should be allotted enough resources to balance their budgets but also that these resources should be capable of expansion with their growing activities. Under the Government of India Act 1935 which introduced Provincial Autonomy and proposed a Federal type of Government for India the sources of revenue allotted to the centre and the provinces were put in separate lists. On the basis of these sources it was anticipated that some provinces might be faced with serious deficits. To make adjustments and to put the various provinces on an even keel, Sir Otto Niemeyer was appointed to make recommendations in this respect. The financial arrangements which finally resulted are described below.

2. Provincial Sources of Revenue Under Provincial Autonomy. The following heads of revenue were allotted to the Provinces under the Government of India Act, 1935.

(1) Land Revenue.

(2) Excise Duties on alcoholic liquors, opium, hemp, other narcotic drugs, medicinal and toilet preparations containing alcohol manufactured or produced in the province, countervailing duties on similar articles, manufactured in other parts of India.

(3) Taxes on agricultural income.
(4) Taxes on Lands and Buildings.
(5) Succession duties in respect of agricultural land.
(6) Taxes on mineral rights, subject to any limitations imposed by a federal law relating to mineral development.
(7) Capitation taxes.
(8) Taxes on professions, trades, callings and employments.
(9) Taxes on animals and boats.
(10) Taxes on sale of goods and on advertisements.
(11) Cesses on entry of goods.
(12) Taxes on luxuries including entertainment, amusement, betting and gambling.
(13) Stamp duties in respect of documents, other than those assigned to the federal government for such taxation.
(14) Taxes on goods or passengers carried on inland waterways.

(15) Tolls.

and (16) Fees in respect of Provincial legislative lists.

In addition to these resources there were some other taxes which could be levied and collected by the federation only for the benefit of the provinces. Their proceeds were to be distributed among the provinces in accordance with the principles laid down by the federal legislature. These included duties in respect of succession to properties other than agricultural land, stamp duties of specified kind mentioned in the federal legislative list and terminal taxes on goods and passengers. The duty on salt and federal excise duty like that on sugar and export duties were to be collected by the centre but the whole or a part of the proceeds could be distributed among the provinces if the federal legislature so provided. The idea was to introduce unifotmity and economy in the collection of such taxes.

As regards the Income Tax the Act accepted the principle that the tax on income (other than the tax on Corporations, on Federal emoluments and receipts from centrally administered areas) should be divided between the centre and the provinces. The actual division, however, was made dependent on the solvency of the centre, especially, on the improvements in the Railway finance. Sir Otto Niemeyer recommended that during the initial period of five years the centre should retain the whole or part of the share of the provinces to make the proceeds of the share accruing to the centre and the Railway contributions a sum equal to Rs. 13 crores. This was the amount thought necessary to balance the central budget in the beginning.

After the first five years the retained portion was to be reduced by one sixth each year so that in the eleventh year after the attainment of Provincial Autonomy (*i.e.* in 1948) the provinces were to receive their full share of the Income Tax. As regards distribution of the aggregate share among the provinces, Sir Otto Niemeyer fixed the scale of distribution partly on the basis of residence and partly on that of population. Thus the percentages to be allotted varied from 1 in the case of N.W.F.P. and 20 in the case of Bombay. Bengal got 20%, Punjab 8% and Sind 2%. Some of het provinces had such meagre revenue resources that to start them off on their autonomous life it was thought necessary to give them financial aid by the centre. Here also Sir Otto Niemeyer had to propose assistance to be given to the provinces and his recommendations were accepted. He recommended the following financial

assistance :—

Bengal	Rs. 75	lakhs.	Annually
Behar	Rs. 25	,,	
C.P.	15	,,	
Assam	,, 45	,,	
N.W.F.P.	100	,,	
Orissa	50	,,	
Sind	105	,,	

U.P. was to receive Rs. 25 lakhs for 5 years.

The help was to be given in three ways : (*i*) *The increase in share of jute export duty.* The share in the jute Export duty which was originally laid down at 50 percent for the Jute producing provinces of Bengal, Behar, Assam and Orissa was raised to 62½ percent. (*ii*) *the concellation of debt.* Debts contracted with the centre by the provinces of Bengal ,Bihar Assam, N.W.F.P. and Orissa prior to 1st April, 1936 were wholly concelled In the case of C.P. only the debt due to deficits was cancelled. (*iii*) *Direct subventions.* These were given to U.P., Assam, N.W.F.P., Orissa and Sind.

3. Effect of Partition on Pakistan's Provincial Finance.— The Pakistan provinces have suffered in more than one ways as a result of partition. In the first place the revenue receipts derived from the provincial heads decreased during the immediate post-partition period on account of the general paralysis of economic activity and the breakdown of the collection machinary in certain areas, due to the exodus of the non-Muslims and the unsettlement called by the influx of the refugees. The greatest sufferer in this respect was the Punjab and later on also the East Bengal. Secondly on the expenditure side the provinces had to spend large amounts on the care and rehabilitation of the refugees. Here again the Punjab had to bear the heaviest burden. It has been estimated that this province has so far spent about Rs. 10 crores as direct expenditure under this head.[1] Apart from the direct effect of the partitition the Provinces have suffered financially because they have been deprived of certain sources of revenue they used to have in the prepartition days. This resulted from the weak financial position in which the Pakistan Government found themselve at the very birth of the State. A very important source of revenue of the pre-division India was Income Tax. This source is only of minor importance in the case of Pakistan

(1) Punjab Gazette Extra-ordinary March, 28, 1951. P 116

because of the absence of large scale industries in this country. The Central Government was therefore compelled to encroach upon the financial resources which hitherto belonged to the provinces. In the first place, the Provinces were deprived of the share of the income tax which they used to receive from the Central Government in prepartition days. Secondly, the Central Government of pre-division India used to give generous grants to the provinces for developmental purposes. These grants were either stopped or were given in very meagre amounts. The Central Government however, gave assistance to the provinces in the form of loans.

Thirdly, the Central Government appropriated some of the sources which were allotted to the Provinces under the government of India Act, 1935 and still continue to be provincial sources in the Indian Republic.[1] These were two of the important sources which were given to the provinces to impart a measure of elasticity to their revenue receipts. The first was the Sales tax which had already been imposed in most of the provinces. With effect from the financial year 1948-49 the Government of Pakistan in consultation with the provincial Governments centralised the sales tax for a period of two years. The tax was to be collected by the centre but half[2] of the net proceeds were to be given back to the provinces from which it was collected. This arrangement was due to expire on 31st March 1950, but was extended for a further period of two years or the introduction of the new constitution which ever was earlier. It was decided, however, that with effect from the financial year 1949-50 the provinces of West Pakistan would receive half the net amount of the Sales tax collected at Karachi. The second source of revenue which has been centralised is the Estate Duty. According to the Government of India Act 1935 'Succession Duties' were a provincial source of revenue. Succession duties on property other than agricultural land however, could be levied and collected by the Federation, for the benefit of the Provinces and were to be distributed among them in accordance with principles laid down by the Federal Legislature.[3] Early in 1950 the Pakistan Legislature passed the Estate Duty Act under which estate Duties, (Death Duties or Succession

(1) Under the new constitution, however, no State (unit of federation) can levy a sales tax on commodities declared by Parliament essential for the life of the community

(2) During 1948-49 Punjab and E. Bengal were guaranteed a minimum payment of Rs. 3 crores and Rs. 1 8 crores respectively.

(3) In India under the new constitution the proceeds of Death Duties when levied will be distributed to the provinces on a prescribed basis.

Duties) were to be levied with effect from 1st April, 1950 for the benefit of the central exchequer.

5. **Examination of Provincial claims**—The central government has been criticised for denying to the provinces the share of the Income Tax and taking away from them two important sources of their revenues—especially the sales tax which is potentially the most remunerative head of revenue. The government is reminded that it had all along been a standing grievance of the provinces that while they were entrusted with growing developmental responsibilities their revenue resources were incapable of expansion in a corresponding degree. The act of 1935 gave them a few expanding resources among which the sale tax was one of the most important and the Pakistan Government has appropriated half of the proceeds of this tax. In addition the provinces have been denied their usual share of income tax proceeds and the income from the Estate duty. Further, Sind has complained of having been deprived of the Karachi area which has adversely affected her finances. Lately that province and the Punjab have been demanding a share in the cotton export duty the revenue from which has enormously increased for the centre. Bengal has been demanding the entire proceed of the jute export duty instead of the 62½% as at present.

The greatest agitation in favour of giving the provinces more expanding sources of revenue took place at first during the period of Diarchy and later of Provincial Autonomy when greater political power was transferred to the provinces in this sphere while the centre still remained responsible to the British Parliament. There was at times a clash of interests. The money spent by the centre was controlled largely by a foreign power and was mainly spent in keeping the hold of that power upon the country. The finances put at the disposal of the increasingly autonomous provinces were spent on the welfare of the people of the country.

This clash of interests was then understandable. After the achievement of independence the situation has entirely changed. The state is now our own and is democratically operated. The central and the provincial governments are both responsible to the people of Pakistan. The expenditure on Defence which is the main responsibility of the centre is as much in the interest of the Pakistani nation as expenditure on education for instance. It is merely a matter of priorities. The first priority, naturally, is the safeguarding of our independence without which the national existence itself would disappear. If the centre finds

that on the basis of the old heads of revenue it cannot carry on its basic function of protecting the integrity of Pakistan as an independent state, the provinces must part with some of their sources of income in the interest of this common head. Of course difference of opinion can arise whether we require a particular level of Defence Expenditure or not but this difference cannot be resolved by uninformed opinion. It is a technical matter and only army experts can guide the government and the people in this respect. Once the level of Defence expenditure and expenditure on other basic needs of the centre is fixed money must be found for it. Welfare and developmental activities are important but security internal and external is the condition precedent to national existence. There is no room for quarrel on this account any more.

Of course it is true that the central government cannot make every effort to eliminate all avoidable waste and must do every thing to promote activities leading to the development of the economic resources of the country. But this last can only be done within the limits set by the resources available for this purpose. This is entirely a different approach than the one in which each province wants to get more and more from the centre for its particular needs giving the impression as if the central government is an entity the interests of which run counter to the interests of the provinces.

This, however, does not mean that the present allocation of revenue resources is prefect and equitable as between the provinces with unequally developed resources and varying needs. The allocation can be reconsidered and no doubt will be reconsidered during the process of framing the new constitution. Two fundamental principles must form the basis of any future arrangement in this respect.

(a) The centre must be ensured adequate finances for carrying on effectively its basic responsibilities among which Defence is the foremost.

(b) Provinces as one against another must be equitably treated. This means; (i) that those with less developed resources must be helped to come to the level of the more developed ones as far as possible and in the meantime the basic needs of good government and social welfare must be ensured to them.

(ii) Each province must be given adequate incentive to develop its own revenue resources to the maximum and to avoid waste in expenditure.

These two priciples may sometimes pull in opposite directions and a compromise may have to be found. For instance, if a less progressive province is made to spunge upon a more progressive one the net result may be slowing down of developmental activities and carelessness regarding economies in expenditure in both. Moreover, every province might try to show that it is in financial difficulties by framing deficit budgets. Such a vicious competition must be avoided at any cost. These are not imaginary difficulties. The history of financial relations between the centre and the provinces especially before 1921 presents many examples of such competition among the provinces. Such a contingency can only be avoided if those at the helm of affairs in the provinces think in national and not sectional terms and come to a mutual under standing among themselves and the centre on some rational basis.

With these preliminary observations we now proceed to examine the financial position and trends in the provinces.

5. Growth of Provincial Revenues.[1]

The aggregate revenue receipts of all the four provinces of Pakistan ; the Punjab, the North West Frontier Province, Sind and East Bengal, were Rs. 44 crores for the year 1948-49 (Actuals) and Rs. 50.77 crores for 1951-52 (B.E) showing an increase of 13% over the period. This is a very meagre increase when it is realised that the revenue receipts of the first post partition year were adversely affected by many factors already mentioned. The increase, however, was not uniform in the case of individual provinces. Sind's revenue receipts were in

1. The budget figures of the partitioned provinces of the Punjab and E. Bengal are not comparable with prepartition days. We shall therefore give aggregate statistics for 1948-49 as the base for comparison. This was the first full year after partition. The growth of revenue and expenditure from the year 1947-48 can be studied in the case of the undivided provinces of Sind and N.W.F.P.

fact lower in 1951-52 than in 1948-49 and those of East Bengal almost the same as shown in the table below :—

REVENUE RECEIPTS OF PROVINCES

		1948-49 (Actuals) Rs. Crores	1951-52 B. E. Rs. Crores	Increase+ decrease — Rs. Crores	percentage
Punjab	...	17.21	21.63	+4.42	25.7%
N.W.F.P.[1]	...	3.20	4.56	+1.36	42.5%
Sind[2]	...	7.62	7.59	—.03	—.4%
E. Bengal	...	16.86	16.99	+.13	+.7%
Total	...	44.89	50.77	6.18	13%

Thus over 71% of the total increase was due to the Punjab, N. W. F. P. though its budget is small showed the highest percentage increase. Compared to 1947-48 the fall in receipts of Sind was by Rs. 160 lakhs or about 8%.

This is due to the separation of Karachi from this province. East Bengal's revenue receipts have been adversely affected by civil disturbances of early 1950 and the repurcussions of the Indian trade deadlock after our non-devalution decision. It is expected that budget estimates (which are based on the revised figures of 1950-51) will be surpassed by actuals. Even then however, the developed resources of the province are meagre.

The Punjab has shown the most remarkable increase in its revenue receipts, an increase of about 26%. For the year 1947-48, the budget of the full province had only Rs. 3.35 crores, more in the way of revenue receipts compared to the year 1951.52 (B.E.). when it is remembered that before the partition the Punjab used to receive about Rs. 2.5 crores as her share of the income tax from the centre and the revenue receipts of the Province used to include about Rs. 4 crores as "Extraordinary receipts" the proceeds of the sale of Crown lands (now allotted to refugees) the present revenue position is extremely satisfactory.

(1) Includes the central subvention of Rs. 1 crore a year.
(2) Excludes transfers to the Land Revenue Equalisation Fund.

6. **Growth of Provincial Expenditure.** Now as regards provincial Expenditure, the aggregate expenditure of the provinces increased by 17% between 1948-49 (Actuals) and 1951-52 (B. E.). The provincial variations individually were as under :—

Provincial Expenditure.

		1948-49 Actuals Rs. crores	1951-52 B. E. Rs. crores	Increase+ decrease− Rs. crores	Per cent
Punjab	...	19.43	21.63	+2.20	11.3%
N. W. F. P.	...	3.41	4.62	+1.21	+35.4%
Sind	...	8.25	7.92	− .33	−4.0%
E. Bengal	...	15.99	20.96	+4.97	+31.1%
Total	...	47.08	55.13	+7.89	17.0%

Thus of the total increase of about Rs. 8 crores in expenditure East Bengal was responsible for over 60% and the Punjab for about 26% N. W. F. P. had. the heighest percentage increase followed by East Bengal. Punjab's increase was moderate and Sind had less expenditure in 1951-52 than in 1948-49. The relatively small percentage increase in the Punjab is partly explained by the high expenditure of that province during the first full poor post-partition year (the base year) due to the pressure of refugees.

Compared to the year 1949-50 the expenditure of the province in 1951-52 was higher by 21%.

The province of East Bengal has shown remarkable increase in exenditure during the last two years. But even then the expenditure of this province per head of population is the lowest

as the following table will show :—

	Total expenditure 1951-52 B, E. Rs. Lakhs.	Provincial Expenditure in Relation to population.	
		Population 1951 census estimate in lakhs.	Expenditure per head of population Rs.
Punjab ...	21,63	183	11.5
N.W.F.P. ...	4,62	57	8.1
Sind ...	7,92	46	17.3[1]
E, Bengal ...	20,96	421	5 0
All Provinces.	55.13	721	7.8

Sind spends the largest amount per head, of her population and E. Bengal the smallest.

Though it is quite true that the meagrely developed reaources of E. Bengal are responsible for the limited expenditure on her people, the problem of population also needs tackling. Much of the poverty of the province is due to the high population density for which other provinces of Pakistan cannot be blamed. The density of population in East Bengal on the basis of the latest census estimates is 800 persons per square mile against Punjab, 300 persons in the Punjab, 300 in the N.W.F.P. and only 96 in Sind.

(1) The expenditure figures for Sind are inflated by Rs. 2.25 crores on account of the Transfer into land revenue Equalisation Fund of this amount for this year This amount is taken from Land revenue collections and added to expenditure under "Direct Demands of Revenue i. e. cost on collection of revenue. If this amount is deducted, per head expenditure comes to Rs 12.3.

8. **Sources of Revenues of the Provinces.** On the basis of the 1951-52 budget the revenues of the provinces were distributed in the following proportions among their respective sources :—

Percentage distribution of total Provincial revenue receipts among the various heads.

1951-52 (B. E).

Heads of Revenue.	Punjab.	N. W. F P.	Sind.	E Bengal.	All Provinces.
Total Revenue in Rs. crore.	21. 63	4. 56	7. 59	16 99	50. 77
Of which :—	% of total	% of total	% of total	% of total	
Customs	...	1. 0	...	21. 2	7. 0
Taxes on Incomes	...	. 4	...	4. 7	1. 6
L. Revenue	8. 7	9. 5	20. 7	12. 7	11. 8
Excise	3. 1	2. 7	1. 9	3. 5	3. 4
Stamps	2. 1	2. 8	. 9	10. 3	4. 7
Forests	3. 5	4. 7	2. 1	1. 9	2. 9
Registration	. 2	. 2	. 1	2. 9	1. 1
Receipts under Motor Vehicles Act	. 9	1. 3	1. 3	. 4	. 8
Other Taxes and Duties	23. 5	6. 2	12. 7	32. 9	23. 7
Irrigation	21. 5	6. 2	39. 9	...	15. 6
Central Subvention	...	21. 9	...	...	2. 0
Other Receipts	36. 5	40. 0	20. 4	9. 5	25. 4
Total	100.0	100.0	100.0	100.0	100.0

(1) About equally divided between judicial and non-judicial stamps. The income from this source is not left in view of the greater population of E. Bengal.

If we group all the sources (leaving aside incidental receipts from spending Departments) into three categories viz (*a*) Land Revenue and Irrigation (*b*) Other traditional sources and (*c*) New sources, we get the following table. We leave out customs, which only contribute to East Bengal's finances and[1] represent 62½% basic export duty on raw jute.

All Provinces.

	1948-49 Actuals Rs. Crores	1951-52 B. E. Rs Crores	Percentage +increase −decrease
(*a*) Land Revenue and Irrigation.	13. 01	13. 92	+7%
(*b*) Other Traditional Sources	7. 15	6. 42	−10%
(*c*) New Sources	8. 00	12.12	+51.0%

Thus the traditional sources taken (*a*) and (*b*) together increased only by Rs 18 lakhs or by 1% and the new sources increased by over 50%. These new sources are lumped under " New Taxes and Duties" The chief among these are.

(*a*) Entertainment Tax.

(*b*) Receipts from Electricity Duties.

(*c*) Tobacco Tax.

(*d*) Share of general Sales Tax (in Punjab & N.W.F.P only)

(*e*) Agricultural income rax.

(*f*) Receipts from Urban Immoveable Property Tax (Not imposed in Bengal)

(*g*) Motor Spirit Sales

(*h*) Raw jute Tax (in Bengal only)

The increase in their yield according to provinces was as follows :—

Punjab from Rs 2.17 crores to Rs. 5.03 crores or 130%

N. W. F. P. Rs. 0-10 crores to Rs. 0-48 crores or 371%

Sind from Rs. 0·64 crores to Rs. 0·96 or 50%

E. Bengal from Rs. 5.12 crores to Rs. 5 59crores or 9%

This revenue was derived according to sources and provinces as follows :—

Provincial Receipts from "Other Taxes and Duties."

Name of the tax	Punjab	N. W. F. P.	1951-52 Sind	(B.E.) E. Bengal	All Provinces.
Total in Rs. lakhs.	507.94	47.89	96.53	559.74	1212.10
Percent Share from :	%	%	%	%	%
Entertainment tax	5.6	13.8	8.0	3.2	5.1
Electricity Duties etc	2.4	Negligible	1.4	.4	1.3
Tobacco tax	.2	Negligible	1.5	...	.3
Sales tax	67.5	52.8	83.0	33.2	53.0
				4.4[2]	3.0[2]
Urban Immovable Property tax	7.8	10.2	1.0	...	3.8
Tax on Motor Spirit	2.6	9.5	5.1	1.5	2.5
Raw Jute Tax[1]	...	...	...	57.3	25.0
Agricultural Income tax	13.8	3.7	...	...	6.0
Total	100.0	100.0	100.0	100.0	100.0

Thus more than half of the proceeds from the new Taxes come from the provincial share of the sales tax. The revenue from this tax varies from 83% of the total under new taxes in Sind to 33% in East Bengal. The percentage in East Bengal has been brought down by the high proceeds from the raw jute tax[1] imposed in that province. When the provinces will get the full net proceeds from this tax their revenues will increase significantly. It is hoped that with improvement in the central finance this important and expanding sum of revenue will be handed back to the provinces.

Entertainment duty contributes from five to fourteen percent to the total revenues under this head. The duty is already high and has little scope for expansion.

(1) Includes jute dealers Registration fee
(2) Income under E. B. Finance Act. 1950

The urban Immoveable property tax contributes a good share in the case of the Punjab and N. W. F. P. Its contributions to the budget are negligible and East Bengal has not yet imposed this tax. These provinces are much less urbanised and the tax is not likely to bring much with greater Industrial development and urbanisation, however, its proceeds will increase but on principle this tax should be left to the local bodies —municipalities etc.

The agricultural income tax has been imposed by two provinces so far. It brings about three quarters of a crore for the Punjab which is quite a good sum. Its yield in N. W. F. P. was only 1. 7 lakhs in 1951-52. Other Provinces especially Sind might get a good amount from this tax if imposed. Receipts from electricity brought Rs. 12. 58 lakhs to the Punjab in 1948-49 and Rs. 12. 33 lakhs in 1951-52. There seems little scope for expansion of this source until the use of electricity becomes more wide spread. It contributes negligible amounts to the revenues of the other provinces.

Our conclusion regarding provincial sources of revenue, therefore, is that the old sources have reached their maximum limit and proceeds from them are likely to decline in the future in so far as this tendency is not counteracted by increasing the area under cultivation through irrigation developments in the Punjab and Sind and development of forests Of the new sources of revenue almost every possible source has been tapped except that agricultural income tax may be imposed in Sind and East Bengal. The most important provincial source is the Sales Tax and the Central Government should try to return this source of revenue to the Provinces as soon as possible. This is the only source which promises expansion of provincial revenues, apart from the expansion that might result through the slow process of economic development of the country.

9-Main Heads of Provincial Expenditure. Passing on to the expenditure side of the Provincial budgets the table given below gives a general idea of the proportions of the total

(1) This tax is apart from the custom's duty levied by the centre of which E. Bengal gets 62½ %. This is the additional duty of R 1 per maund imposed on raw jute exports the whole of the proceeds of which go to the provincial exchequer.

revenue expenditure incurred under various heads by the Provinces :—

Percentage of Expenditure Incurred Under Various Heads 1951-52 (B.E.)

Head of Account.	Punjab.	N.W.F.P.	Sind	East (2) Bengal.	All Provinces
Total Expenditure. Rs. Crores.	21:63	4.62	(1) 7.92	20.96	55.13
Percent under :—					
Direct Demands on Revenue.	7.4	5.4	7.0	5.8	6.5
Transfer to L.R.E.F.	—	—	23.8	—	0.4
Irrigation Revenue Account).	11.3	8.3	17.9	1.9	8.4
General Administration.	6 1)	7.4)	6.4	10.1)	7.8)
Administration of Justice.	1.7(	2.1)	2.2	3.8)	2.6)
	)26.1	)34.6		)34 1	)29.7
Jails etc.	2.1)	4.2)	3.9	3.2)	2.9)
Police.	15.2)	20.9)	16.9	17.0)	16.4)
Beneficient Departments.	32.2	25.0	20.4	32.1	29.9
Civil Works.	8 1	14.1	5.3	6.5	7.9
Other expenditure.	15.9	12.6	-3.8	19.6	19.2
Total.	100.0	100.0	100.0	100.0	100.0

(1) Includes Rs. 225 lakhs Transfet to Land Revenue. Equalization Fund includes 12.3 per cent under debt services.

(2) Expenditure under Development (Rs. 2.62 crores has been distributed over the various heads.

Thus purely administrative and protective functions cost the Provinces about 30% of their total revenues. Police alone costs from 15 to 20 per cent, the highest under this head being spent in the N.W.F.P. and the lowest in the Punjab. The cost of general administration is the highest in East Bengal and lowest in the Punjab even though expenditure on the elections, New Assembly and the Ministry has been provided for. Administration of Justice and Jails again are highest in East Bengal and lowest in the Punjab.

As regards expenditure on what are known as the Beneficent Departments (which include expenditure, Health, Agriculture, Industry and Cooperation) the Punjab shares the highest proportion of its revenues on them. The normal expenditure on them is only 22% in East Bengal. But if expenditure under Development is also distributed according to departments this percentage reaches almost as high as of the Punjab. The lowest percentage on this account is spent by Sind. But this is partly due to the inflated figure of total expenditure which includes as high as 23.8% of the total under Direct Demands on Revenue which is actually a Saved Fund (The Land Revenue Equalization Funds). If this Fund is taken out of the account the percentage spent by Sind on Beneficent Departments rises to 30% of the total expenditure which gives a correct relative idea of the Beneficent activities of this Province (1)

If we further break down the figures of expenditure on Beneficent Departments the following details are revealed —

Expenditure on Beneficent Departments (1951-52 B.E.)

	Punjab		N.W.F.P.		Sind		East Bengal. (1)	
	Rs Lakhs	% of total.	Rs Lakhs	% of total	Rs. Lakhs	% of total	Rs. Lakhs	% of total.
Education	309	44.3	75	64.6	105	64.8	218	46.9
Medical and Health.	163	23.6	23	20.0	28	17.2	94	20.2
Agriculture and Veterinary	93	13.3	13	11.2	25	15.4	111	23.9
Cooperation.	25	3.6	3	2.6	2	1.3	22	4.9
Industries	107	15.5	2	1.6	2	1.3	20	4.1
Total.	697	100.0	116	100.0	162	100.0	465	100.0

(1) It may be pointed out here that if the amount transferred from the proceeds of the land Revenue to the expenditure side in this way is counted as revenue and not expenditure all budgets of Sind which have been showing deficits since 1947-48 will turn into surplus budgets yielding a good surplus.

(2) Only normal budget expenditure is included as in other Provinces.

Expenditure on Beneficent Departments has increased by about one third since the establishment of Pakistan. The increase, however, has varied considerably in different provinces as is indicated in the table below :—

INCREASE IN EXPENDITURE ON BENEFICENT DEPARTMENTS

	1948-49 Actuals Rs. Lakhs.	1951-52 B.E. Rs. Lakhs.	Percentage increase
Punjab.	492.0	697.6	41.9%
N.W.F.P.	68.5	116.0	70.0%
Sind.	151.7	162.0	6 7%
East Bengal.	385.6	465.5	20.0%
Total.	*1097.8*	*1441.1*	*31.2%*

The largest increase has taken place in the case of N.W.F.P. and smallest in the case of Sind. But this is not a test. It also depends on the level of expenditure during the base year which may be quite satisfactory in comparison with other provinces even though the latter may have shown bigger increases. In the table below we compare relative positions of the Provinces with respect to their populations and expenditure incurred on Beneficent activities.

Province.	Population Percentage.	Percentage expenditure on Beneficent Departments. 1948-49 B.E.	1951-52 B.E.
Punjab.	26.4	44.9	48 8
N.W.F.P.	8.0	6.2	8.0
Sind.	6.4	13.9	11.1
East Bengal.	59.2	35.0	32.1
Total.	100.0	100.0	100.0

It would appear, therefore, that though Sind's relative position in the matter of expenditure on Beneficent Departments has slightly deteriorated in comparison with its population the Province is still better off than either N.W.F.P. or East Bengal. The Punjab is the best off among all the Provinces. Not only is its relative position compared to its population percentage high, it has further improved itself in this respect. East Bengal needs greater expenditure on these activities in relation to her population, In her development programme

for the year 1951-52 this Province has provided (under revenue account) Rs. 207 lakhs to be spent on these Departments. Expenditure on education and health is welfare expenditure par excellence. Below, we compare expenditure under these departments per head of population.

Province.	Expenditure on Education and Health Rs. Lakhs.	Population 1951 Lakhs.	Expenditure per head of population Rs. - As. Ps.
Punjab.	4,72	1,88	2 - 8 - 1
N.W.F.P.	98	57	1 - 11 - 6
Sind.	1,33	46	2 - 14 - 3
East Bengal.	3,12	4,21	0 - 11 - 10
Total.	10,15	7,12	1 - 6 - 9

Sind spends highest per head on education and health and East Bengal again the lowest. The Punjab stands only a little below Sind. Taking the Provinces collectively we are spending less than Rs. 1/8/- a year on the basic needs of education and health. Of course, some money is spent by the local bodies and also some by the Centre. But even if the whole expenditure were to be included it is doubtful whether the per head figure will go beyond Rs. 2 for the whole of Pakistan. This is a very unsatisfactory state of affairs for which the main factor responsible is the poorly developed resources of the country. It is not so much a case of mal-distribution of expenditure as of the meagreness of the ultimate pool of national income from which this expenditure has to be incurred. There is little room for improvement through mere reallocation because the expenditure on protective and basic administrative functions cannot be reduced to any significant degree without having other serious repurcussions on national life. The real remedy lies in increasing efforts at the development of our sources. This brings us to the study of capital expenditure of the provinces.

(9) Capital Expenditure of Provinces. We give below a consolidated state of capital expenditure incurred by the provinces from the time of the partition *i.e.* from 1947-48 (Actuals) to 1950-51 (R.E.). We have not included Budget Estimates for 1951-52 because we cannot say how much of the budgeted Capital Expenditure will be actually incurred. The past experience is that only a small proportion of the budgeted expenditure is actually incurred. This failure to spend is usually due to difficulties of getting materials and

equipment required for the project. In a later section we shall mention the capital expenditure planned on the various projects for 1951-52

Aggregate Capital Expenditure Incurred From 1947—48 (Actuals) to 1950-51 (R.E.) and Percentage Spent on Various Accounts.

	Punjab.	N.W.F.P.	Sind.	East Bengal.	Total All Provinces.
Total expenditure Rs. Crores.	22.89	2.61	8.30	9.93	43.73
	% of total.	% of total.	% of total.	% of total.	% of total.
Irrigation.	62	Negligible.	45.8	-	41
Civil Works.	29	Negligible.	-2.0	55	27
Electricity.	21	96	0.6	-	17
State Trading.			55.6	34	15
	-12	4			
Other items.			-	1.1	-
Total.	100.0	100.0	100.0	100.0	100.0

Thus Punjab has concentrated mostly on the development of irrigation schemes, N.W.F.P. on Electricity, Sind on State Trading followed by irrigation and East Bengal Civil Works and State Trading. Apart from Irrigational facilities agriculture has not received adequate attention nor has industry. Capital investment in agriculture in the interest of its modernization will require far reaching reforms in the system of land tenure. Without this perhaps the only thing that can be done apart from extension of irrigation through canal and tube wells is the production and supply of artificial manures at concession rates. The Central Government is tackling this problem at their level. Further investments could be made to counter the menace of water logging and that of soil erosion. These should receive more urgent and effective attention in a province like the Punjab than hitherto.

As regards industrial development the Government has left this activity to private enterprise and perhaps under the present circumstances there is no other alternative. But establishment of trade estates, like the one set up at Karachi, in important places by various Provincial Governments could accelrate the process of industrial development through private initiative. Provincial Committees capable of giving expert advice regarding the location of such estates should be appointed without undue delay. With the nationalization of road

transport another field of profitable investment will be available to the Provincial Governments and it is hoped full advantage will be taken of it. It will bring good profits and will also improve the service for the people.

10.—**Provincial Capital Budgets For 1951-52.** In the table that follows are given provisions made by provinces on capital account for various development purposes for the year 1951-52.

	Punjab Rs. Lakhs.	N.W.F.P. Rs. Lakhs.	Sind Rs. Lakhs.	East Bengal Rs. Lakhs.	Total Rs. Lakhs.	% of total
Irrigation ...	4,50	28	451	—	829	27.6
Industry ..	1,50	5	—	54	209	6.9
Civil Works ...	3,14	7	117	634	1072	35.7
Agriculture ...	26	—	4	25	55	1.5
Electricity ...	5,74	193	—	—	772	2.55
State Trading	—90	—54	—78	25	—197	—6.0
Others ...	44	22	36	63	265	8.8
Total ...	14,68	206	530	801	30,05	100.0

Thus the Provinces have budgeted the huge sum of over Rs. 30 crores under Capital expenditure. About half of this has been budgeted by the Punjab about one quarter by East Bengal, about on sixth by Sind and the remaining by N.W.F.P.

The Punjab has provided generously for Electricity Schemes, Irrigation Projects and Civil Works. A fair amount (Rs. 1½ Crores) is also being spent on industrial development and some on agricultural development and research. Some of the Irrigational Projects are now in their last stages of completion and are expected to be completed before the present financial year ends. These are Rasul Hydel Project, Banbanwala Ravi-Bedian Link. Thal Irrigation Scheme is making good progress and two lakh acres of land will be developed during the year. The Rasul Tube-well project aims at sinking 1816 tube-wells of which 1327 have already been sunk. The scheme is also expected to be completed during the year. Work will be started on the Mianwali Hydro-electric project and the work is already in progress on the Lyalipur Thermal Station.

Other schemes to be undertaken during the year are Rehabilitation of abandoned undertakings (Rs. 55 lakhs), construction of roads and buildings (Rs. 3.14 crores), purchase of new buses and extension of various bus services. Rs. 2 crores have been provided for setting up of four spinning and weaving Mills in the Province.

The Sind Government has made provision mainly for construction of irrigational works and civil works. The provision of Rs. 4.50 crores is mainly for the colossal Lower Sind Barrage the work on which has been proceeding for some years now. A provision of Rs. 67 lakhs has been made for the construction of new roads and Rs. 27 lakhs for the maintenance of the existing roads. The scheme for nationalsiation of transport will be further pursued. An Industrial Trade Estate is under contemplation for Hyderabad. The Government has decided to set up a Textile Mill and a Cement Factory; a Paper and Cardboard Factory is under consideration. The first two factories will cost Rs. 2½ crores. The budget provision under capital is Rs 5.30 crores but the Finance Minister anticipated that the development expenditure during 1951-52 will rise to Rs. 11 to 12 crores[1]—a major portion of which will be financed from development loans from the centre. "Some of the major schemes including the Lower Sind Barrage Project have already been forwarded by the Cenrral Government to the World Bank for obtaining loans to cover the expenditure to be incurred in foreign currencies[1]."

The N.W.F.P. has provided over Rs. 2 crores for capital expenditure. If the profits from State Trading are taken into account the expenditure is Rs. 260 lakhs. Of this about Rs. 200 lakhs will be spent upon electricity schemes and about Rs. 30 lakhs on irrigation. Under Electricity Rs. 57 lakhs are provided for the expansion of Malakand Hydro-electric schemes and Installation of Thermo Plant at Tank, Rs. 56,39 lakhs for Durgai scheme and Rs. 93.45 for Warsak Project.

The Province of East Bengal has provided Rs. 6.34 crores out of the total capital expenditure of Rs. 8 crores for civil works and Rs. 54 lakhs for industrial development, 25 lakhs for agricultural development and a similar amount under State Trading. Of the Rs. 6 crores and odd to be spent on civil works. Rs. 3 crores will be spent on road making and a similar amount on construction of buildings.

(1) Sind Budget Speech 1951-52 P. 3.

The amount of Rs. 54 lakhs allotted under industries is to be spent [illegible] ural and thermo (Rs. 40 lakhs), equipr [illegible] mics Institute, Textile Institute and T [illegible] ntly established. The Rs. 25 lakhs [illegible] will be spent upon schemes of power pump and mechanical cultivation and on seed multiplication farms.

The capital expenditure is conditioned by two factors (*a*) availability of necessary loans from the centre and (*b*) availability of essential material and equipment. The second difficulty is of greater importance and has been chiefly responsible for capital programmes being left unimplemented in the past.

12. Concluding Remarks. In conclusion a few remarks may be made about the over all financial position of individual provinces. A reference to the appendix attached would show that the Punjab rapidly recovered from its deficit budgetary position from the year 1949-50 onwards; East Bengal has been having continuous deficit, since 1949-50; N.W.F.P. has shown deficits all along, except for a slight surplus of 8 lakhs for the year 1950-51; Sind has throughout shown deficits since the partition.

The financial position of the Punjab is soundest of all the provinces. Its revenue and expenditure almost reached the level of the pre-partition days when the Punjab was a much bigger province than it is now. Its recovery is remarkable considering the fact that this province has had to spend about Rs. 10 crores directly on the rehabilitation of the refugees. Its expenditure on the Beneficent Departments is highest in relation to the total expenditure and next to the highest in relation to its population. Out of the beneficent activities it has concentrated on the basic needs of the people with respect to education and public health. It is spending the highest amount on capital account for developmental purposes compared to other provinces, while its expenditure on protective functions and routine administration is the lowest in relation to the total revenue expenditure. Its irrigational development programme inaugurated after the partition is in the last stages of its completion. These are remarkable achievements. The secret of these [illegible] fertile land along with [illegible] systems that it possesses. [illegible] the sound common sense and capacity for sustained work possessed by the people of this province. It has its problems, among which the most serious is that of water-logging which is undermining the best asset

of its economy. Further, it is burdened with the largest number of refugees, much greater than those who left this province for India. Its land system requires some radical reforms before its land resources could be propertly utilised. In spite of all that, however, the Punjab is a prosperous province and can be rightly proud of its achievements during the last four years. With greater development of industry and reorganization of its agricultural economy on right lines the province has a very bright future indeed.

The other wing of Pakistan, the province of East Bengal, is not so fortunate. Its population pressure is extremely high and its resources due to past neglect have remained undeveloped. Instead of having a first class irrigation system the province suffers from over supply of water causing floosds and swamps and periodic disturbances in the normal processes of trade and commerce. Its chief asset is the jute crop, the fortunes of which depend upon the goodwill of India and a few other foreign markets. The export duty on jute is the most important single source of its revenue. Its agricultural system specially the system of land tenure is out-moded and hinders economic progress. The degree of urbanization is small and the standard of life of the people among the lowest in the world. The province has however, made honest efforts to put its house in order. In spite of initial difficulties it managed to show surplus budgets for the years 1947-48 and 1948-49. The recent deficits are a consequence of the trade deadlock arising out of the currency controversy with India and of civil disturba ces of 1950. Moreover, the province has been increasing its expenditure on development and social uplift at a rapid rate. With the return of normal trade relations with India it is hoped that the province will be able to show balanced budgets again. Moreover, the total deficit that has been shown upto the end of the year 1951-52 comes to about Rs. 10 crores, while a sum of Rs. 12.72 crores is due to this province by the Indian province of West Bengal on prepartition account. So the province has not been spending beyond its assets. The loans that it has taken from the Centre for developmental activities have already been partly paid back. Its developmental programme mainly consists of building activities and extension of roads but industrial development is not being neglected. On the whole the province is making vigorous efforts towards raising economic standards and deserves every assistance.

The North West Frontier Province remains the most undeveloped of all the provinces of Pakistan. Its revenues are

not enough to carry on its normal governmental activities. The province depends upon a yearly subvension of Rs. 1 crore from the Centre which forms about one quarter of its total revenues. The province, however, is making every effort to bring itself to the level of the most developed provinces of the country. More and more money is being spent on education and health even though the highest proportion of its expenditure has to be devoted to the preservation of law and order. In the developmental field it has concentrated mosly on schemes of electricity in which good progress has already been made. A fair amount of money has also been spent on the construction of new irrigation works. The vigorous efforts of the province need every encouragement.

Finally, as regards, the province of Sind, looking at its balance sheet as given in the budget, one would think that it is one of the most unfortunate provinces of Pakistans. Every year its Finance Minister complains of the deficit character of its budget. In the latest budget he drew attention to the actual revenue deficit for the years 1947-48 and 1948-49 which were of the order of Rs. 129 lakhs and 63 lakhs respectively. The actual for 1949-50 revealed a deficit of 89 lakhs. The revised estimates of the current financial year show a total deficit of 92.6 lakhs against 61.7 lakhs originally anticipated. According to the provincial Finance Minister "for the last few years this province has been living on the reserves accummulated in the past from which these deficits of the order of nearly a crore per annum have been met.[1]"

A closer examination of the way in which budgets of this province are framed will show that far from being a deficit province Sind is actually a surplus province.

Every year any excess over Rs. 2.75 crores in the "Ordinary Revenue" collections is transferred to what is known as the Land Revenue Equalisation Fund. This Fund was created by the Land Revenue Equalisatian Fund Act of 1947 presumably to meet any deficiency that might arise in the land revenue collections in bad years from the excess, over the basic minimum collected, in good years. This transfer is shown under "Direct Demand on Revenue". Normally in other provinces "Direct Demand on Revenue" is constituted by the costs involved in revenue collections. This converts what ordinarily should be a surplus budget on revenue account into a deficit budget.

(1) Budget Speech (Sind) 1951-52 P. L

Looking into this transfer since the partition we find that it was only in one year 1948-49 (actuals) that Rs. 1.86 was withdrawn from this Fund. In every other year there has been a net addition to it. Between 1948-49 and 1951-52 there has been a net increase of over Rs. 6 crores in this Fund. The total deficit since that year has been less than Rs. 3 crores. The balance outstanding in the Fund at the end of the year 1951-52 is estimated to be over Rs. 11 crores. It would seem, therefore, that the financial position of Sind is not really as bad as the impression conveyed by the statistical balancing of revenue accounts. It may be recalled that this province spends the highest amount per head on the Beneficent Departments.

Taking all the provinces together therefore one may say that in spite of the adverse effects of the partition they are on the road to financial and economic recovery. This pace is not uniform in various provinces but the movement is in the right direction. All that these Governments have to do is to accelerate the pace of development, in co-ordination and co-operation with the plans envisaged by the Central Government.

Appendix.

Provincial Revenue Receipts and Expenditure.

	Punjab			N. W. F. P.			Sind			E. Bengal		
	Revenue Rs. lakhs.	Expenditure Rs. lakhs.	Balance Rs. lakhs.	Revenue Rs. lakhs.	Expenditure Rs. lakhs.	Balance Rs. lakhs.	Revenue Rs. lakhs	Expenditure Rs. lakhs.	Balance Rs. lakhs	Revenue Rs. lakhs.	Expenditure Rs. lakhs.	Balance Rs. lakhs
1947–48 (Actuals)	6,57	10.87	–430	3,35	3,65	–30	8,22	9,51	–129	9,72	+88	
1948–49 (Actuals)	17,21	19.43	–222	3,20	3,41	–21	7,62	8,25	–62	16,86	+87	
1949–50 (Actuals)	19,67	17.90	+177	3,30	3,76	–46	7,19	8,08	–89	14,41	–268	
1950–51 (R. E.)	22,00	20.71	+129	4,57	4,19	+8	7,87	8,79	–92	16,95	–360	
1951–52 (R. E.)	21,63	21.63[1]	...	4,56	4,62	–6	7,59	7,92	–33	16,99	–387	
Change in 1951–52 over 1948–49	+25.7%	+11.3%		+42.5%	+35.4%		–.4%	–4%		+.7%	+31.1%	

(1) Slight surplus of Rs. 18,000